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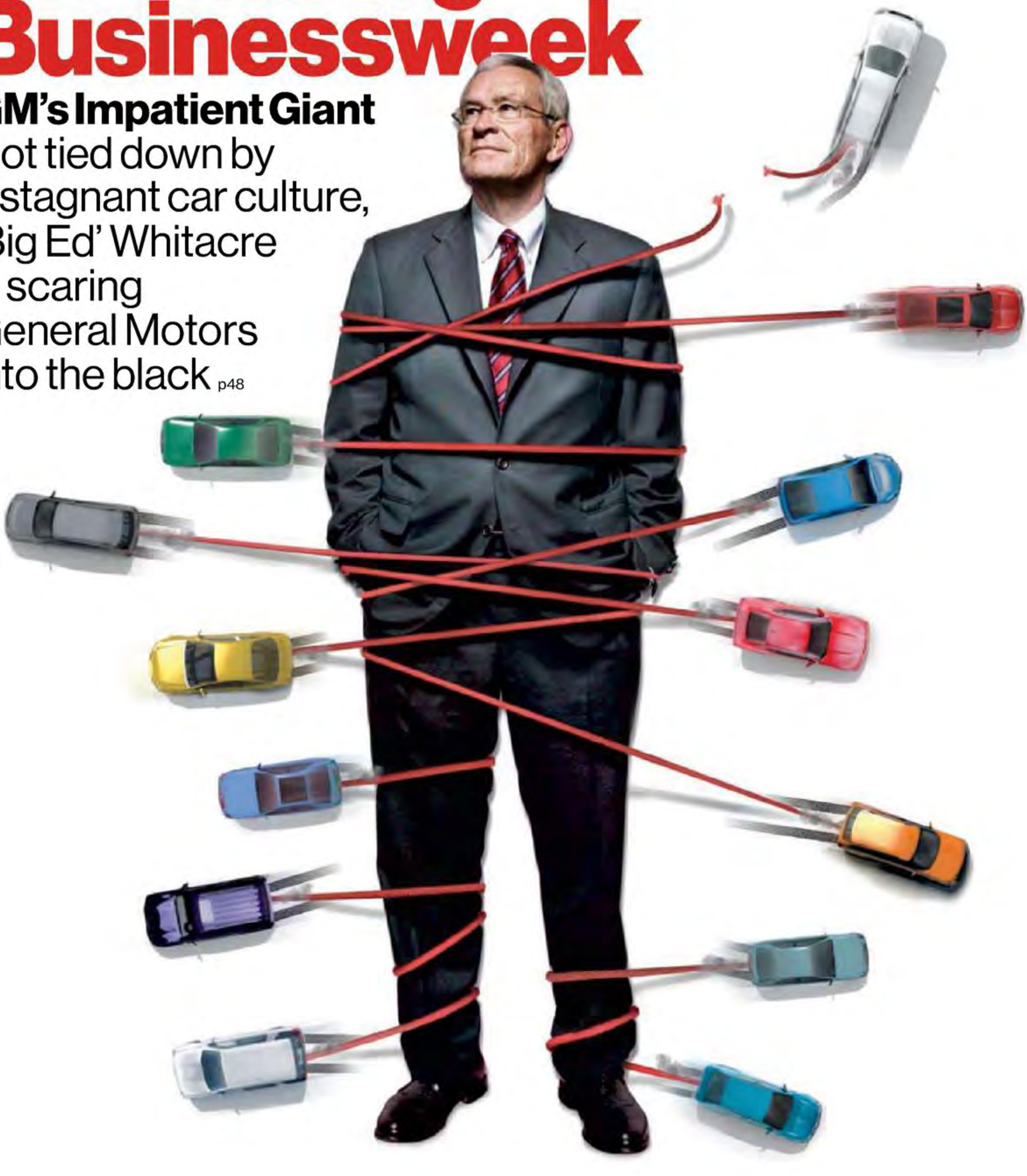
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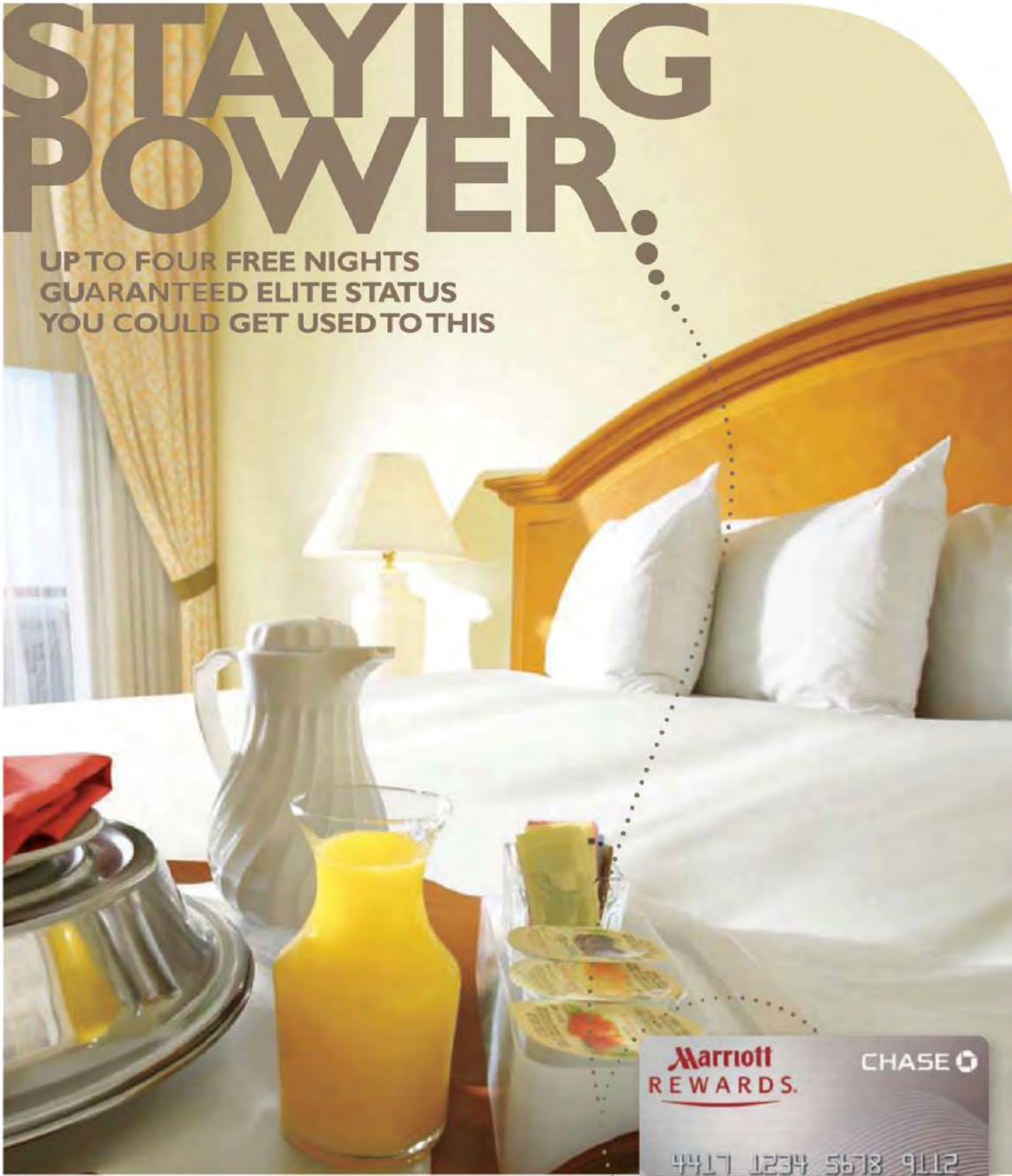
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Feedback

Loved it

"The redesign is great–clean, sophisticated, and very pleasant!"

65%*



35%

Did not exactly love it

"I can't count the number of times that new management has done an insensible purge and taken potential to putrid. Congratulations for joining the list."

*Unscientific tally

Redesign Reaction

The new *Bloomberg Businessweek* (Apr. 26-May 10) is a wonderful improvement. I was going to complain about the lack of page numbers, but as I just sat down to type this e-mail I found them in the outside margins in the center of the pages–well, most of them, anyway. The magazine was going downhill rather quickly, but this issue is a big surprise. Keep up the good work.
Philip A. Robinson
Framingham, Mass.

The redesign is great–clean, sophisticated, and very pleasant! My mind has always enjoyed spending time in these pages. Now my eye does, too. I'm glad you recognize the value in that.
Adam Sullivan
via e-mail

In general I found the redesigned (and expanded) *Businessweek* interesting and visually appealing. My only request: Please show some consideration for us old geezers and use larger size type in all the sidebars, captions, illustrations, etc. These were difficult to read even with my eyeglasses on.
Oded Livneh
via e-mail

Your new format almost hits a home run. I say almost because I always began each week's issue with The Week in Business, which provided a succinct account of the most important events. That was very useful, and I miss it.
R. Puckett
Richmond, Va.

I have been reading *Businessweek* for close to 20 years now, and I have been disappointed with the gradual decline in the quality (and length) of the magazine over that time, particularly over the past five years or so (to the point where it had become a glorified *Time*).



Some weeks I wondered if some pages had fallen out, it was so thin. I was at the point where I was probably going to cancel my subscription when it ran out. This week's edition reminded me much more of why I subscribed in the first place.

Love international news—not just business, but politics and culture. You can't go wrong adding more of that content.

Keep up the good work. The design layout is fine—now just leave it alone instead of changing it every three years, just when we are comfortable with it.
Eric J. Creech
via e-mail

You've done it! You've screwed it up.

Throughout my career in industrial design, public relations, and broadcasting, working for big companies and small, I can't count the number of times that new management has done an insensible purge and taken potential to putrid. Congratulations for joining the list.
Charlie Warren
Fairfax, Va.

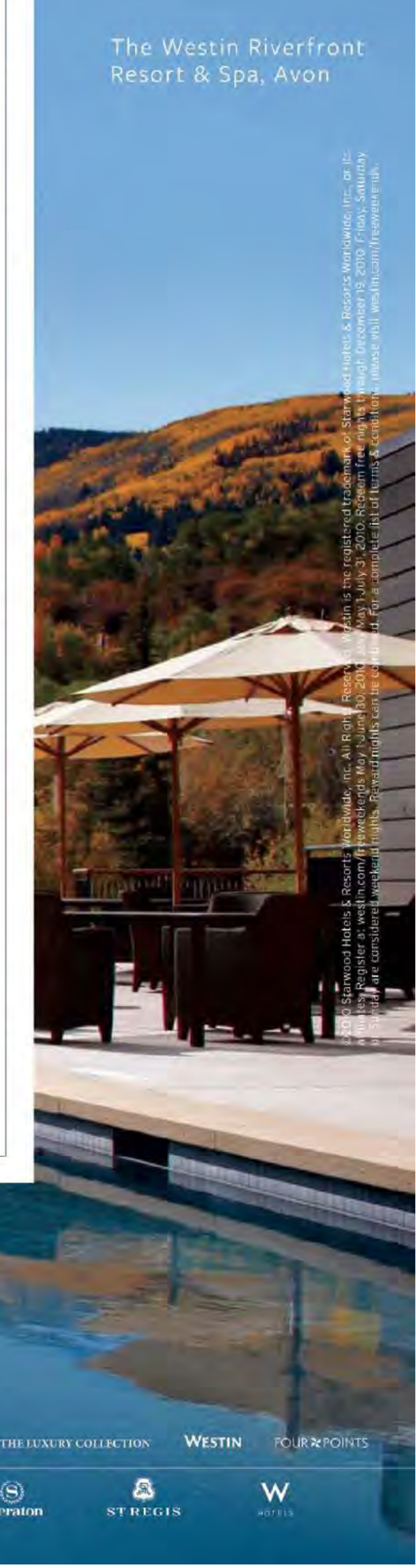
Businessweek has been my primary source of business news ever since I gave up *The Wall Street Journal* about 30 years ago. I always recognized the thoroughness and excellence of the *Journal*, but I found it difficult to skip over the many articles and found myself spending way too much time reading almost all of it.

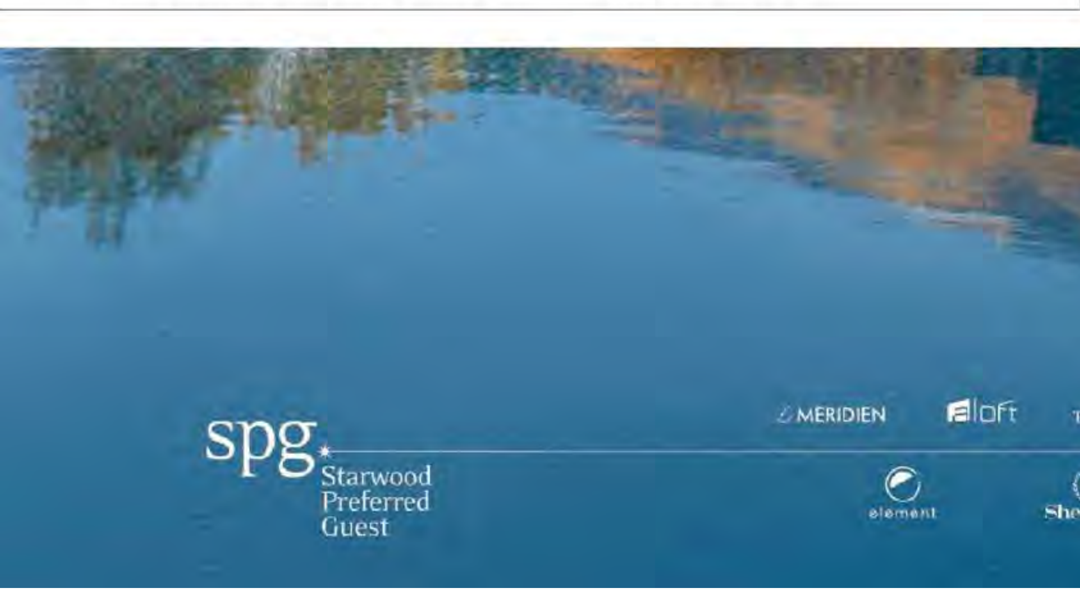
I subscribed to *Businessweek* at the same time and came to the realization that it covered the same ground in a much more concise fashion and satisfied my needs. I could read it cover to cover in a few hours and have been doing so weekly for a very long time. I find the redesign verbose, and the effort to pick through the articles to get to what I really want is annoying.

I don't want 20% more editorial pages and twice the number of articles. The new, improved *Businessweek* is not for me.
Allen Bluestein
via e-mail

No, I am not impressed by your new logo. For years I loved how the *Businessweek* of old was the only place you could get really deep and accurate information about business transactions. Now I see that it has become just one more non-information magazine typical of what is ruining America.
B Brantly
via e-mail

Businessweek has assisted me greatly while in grad school, and I will continue to read it until I finish. [But] if I wanted the "breadth and depth" Bloomberg had to offer, there is an entire television station at my disposal. The fact of the matter is I read *Businessweek* because it offers something I can't get elsewhere. The whole notion of *Bloomberg Businessweek* tells me Bloomberg needed something to boost its brand name and image. I have no problem with making articles more organized and information easier to find, but you have dissolved the *Businessweek* image altogether.
John Bailey
Georgetown, Tex.






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Opening Remarks



West of Naco, Ariz., illegal immigrants tackle a 12-foot border fence

The Wailing Wall

Illegal immigration—Arizona's agony—is a national failure. The business case for fixing the problem. By Peter Coy

It's easy to scoff at Arizona for using police-state tactics against people who sneak across the border to wash America's dishes, pick its apples, mow its lawns, and care for its children. The state law signed by Governor Jan Brewer on Apr. 23 allows local police to detain anyone they reasonably suspect is in the country unlawfully, and to arrest that person if he doesn't have legitimate identity papers. Although the law prohibits racial profiling, critics think it will inevitably lead to targeting on the basis of appearance. To prod the police into staying tough, the law lets citizens sue bodies that don't enforce it. Even within Arizona the law is controversial. Arizona Attorney General Terry Goddard, who is running for governor, calls it a "tragic mistake."

Another mistake would be to dismiss the frustration that led Arizona to pass such a measure. Abandoned by Washington, left to deal on their own with illegal immigration from a nation on their southern border that is consumed by drug violence, Arizonans took matters into their own hands. If the federal government doesn't move quickly to secure porous stretches of the border and pass comprehensive immigration reform, other states may feel compelled to improvise, too.

It was a previous crackdown—a federal effort in California—that helped create Arizona's current nightmare. In 1994 the Clinton Administration launched Operation Gatekeeper, which used fences and patrols to stem illegal border crossings in California. By 2000 the human traffic had shifted eastward, and Arizona was the site of 45% of illegal crossings, up from 8% in 1992, says Edward Alden, a senior fellow at the Council on Foreign Relations. That fueled a nativist Minutemen militia movement. Arizona got its own fences, of variable effectiveness, on nearly half of its southern flank—and 4,000 Border Patrol agents.

Since Mexicans couldn't make it across by themselves, they turned to vicious Mexican smuggling rings. Suddenly, Alden says, organized crime emerged as a problem. Perhaps the last straw for Arizonans came in late March with the murder of Robert Krentz on his Cochise County cattle ranch, which had been in his family for a century. Krentz was patrolling the 35,950-acre ranch when he was shot by an unknown assailant. It seemed to Arizonans that matters were spinning out of control.

For years, the U.S. has behaved hypocritically on immigration. Legal immigration of low-skilled workers is far below the amount demanded by American businesses, from farms to day-care centers to restaurants. Just 5,000 green cards a year are issued to low-skilled workers seeking permanent residence. In boom times employers would want as many as 400,000 immi-

PHOTOGRAPH BY ANTHONY SUAU

Opening Remarks

"It's not the border that's broken, it's our low-wage labor market." John Schmidt, Center for Economic and Policy Research

grants on permanent or temporary visas, says Tamar Jacoby, president of ImmigrationWorks USA, an employers group. With such a disparity between demand and the legal supply, it's no surprise that smuggling and other forms of criminality are common. The same thing happened the last time the government tried to ban something desired by a big portion of the public. That would be the Prohibition era, from 1920 to 1933, when sales of alcohol were forbidden.

One obvious but imperfect way to relieve the pressure is to increase the number of low-skilled immigrants who are admitted legally. The need for them will only grow in the years ahead. The Bureau of Labor Statistics predicted last year that between 2008 and 2018 the U.S. economy will generate 8.1 million jobs requiring no more than on-the-job training or experience in a related occupation. That's far more than the 4.8 million new jobs that will require a bachelor's degree or more. What makes this solution imperfect is that flooding the job market with immigrants, who don't dare complain about pay or working conditions for fear of being fired and sent home, will harm less educated, native-born Americans and earlier-arriving immigrants who compete with them for work. "When employers say they need 400,000 visas a year, they're saying 'we need indentured servants,'" says Eileen Appelbaum, a Rutgers University economist.

So increasing legal immigration can't be the whole answer. The other—less familiar—solution is to reorganize the American workplace to diminish the number of jobs that require low skills and hence command low pay. That would pull in more Americans who have drifted away from gainful employment. Sound far-fetched? In other developed nations, nannies, sales clerks, and waiters are well-trained and earn living wages. A study of labor conditions in six wealthy nations by the Russell Sage Foundation found that the U.S. had the highest share of low-paying jobs, defined as work that paid less than two-thirds of the median wage. The U.S. share was 25%, followed by Germany at 23%, the U.K. at 22%, the Netherlands at 18%, France at 11%, and Denmark at just 9%.

Investing in employees to upgrade their skills and put them on a path to promotions and higher pay is good for employers as well as workers. In Denmark, meatpacker Danish Crown pays relatively high union wages and competes successfully with American meatpackers that have turned to immigrants to keep wages low. In the U.S., companies like CVS, the drugstore chain; Staples, the office-supply chain; and Nypro, an employee-owned plastics maker, have shown the profit potential in hiring low-skilled workers and training them for advancement. "It's not the border that's broken, it's our low-wage labor market," says John Schmitt, an economist with the Center for Economic and Policy Research, a nonpartisan think tank in Washington. Schmitt co-edited a book called *Low-Wage Work in the Wealthy World* based on the Russell Sage-funded research.

Serious talk about solving the immigration problem is too often drowned out by sloganeering and appeals to emotion by all sides. Even the Homeland Security Dept. has gotten into the act with recent press releases about nabbing a Haitian who tried to cross from Canada in a hockey bag, or a Mexican actress and model who was caught in a sham marriage. ("This actor should have realized that posing as a bride for immigration purposes could land her a role in a real-life crime drama," a special agent was quoted as saying.)

That's a shame, because the outlines of reform are pretty clear by now. The key elements are contained in a bill unveiled in March by Senators Charles Schumer, the New York Democrat, and Lindsey Graham, the South Carolina Republican. The bill provides for a biometric identification card for verification of employment, to stop illegal hiring at the source; stronger enforcement of immigration laws; and a path for undocumented aliens already in the country to earn citizenship.

There's room for debate about details of the bill. It allows for guest workers, who history shows are ripe for exploitation. Some aspects seem overly discouraging to illegal immigrants, such as requiring them to pay fines and back taxes, perform community service, and become proficient in English in order to earn citizenship. Still, there's enough right with the bill for it to deserve serious consideration in Congress. That probably won't happen this year, in part because the hundreds of hours of stakeholder negotiations that must prepare the way for such a bill simply have not happened.

The bigger problem is politics. Persistently high unemployment has bred resentment of illegal immigrants who have jobs. Senator John McCain, the Arizona Republican, has switched to a get-tough approach on illegal immigration to fight off a conservative primary challenger. And even though Senate Majority Leader Harry Reid, the Nevada Democrat, has promised to push for a reform bill, he's doing that mostly for show (page 28). In other words, expect to see more desperate gambits like Arizona's. ⓑ


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Athens street protests: The Greek contagion is spreading to Portugal, Spain, Ireland and beyond

LOUISA GOULIAMAKI/AFP/GETTY IMAGES

Now It's a European Banking Crisis

▶ **While the EU dickered, a virus spread**

▶ **"Time to think of policy options of the last resort"**

For months the top leaders of the European Union resisted the idea of a bailout for Greece, wringing their hands over the estimated $61 billion cost. While the jawboning continued, the infection took hold. Bond vigilantes drove the Greeks' borrowing costs into the double digits. Investors, fearing a contagion in Europe's southern tier, dumped the stocks and bonds of Portugal and Spain. As it spread, markets started to pummel European banks and insurers for their exposure to what could prove to be one of the worst sovereign debt disasters ever. A bank crisis and a debt crisis rolled into one–the medical bills for this extreme case will make Europe long for the modest $61 billion of just a few weeks past.

Europe's banks and insurers hold some $193 billion in Greek debt. That's a fair piece of change, but it's no longer the central issue. For one thing, the debt is distributed among dozens of companies. Commerzbank and ING each hold $3.9 billion in Greek government debt. Writing off 50% of that would hurt, but it wouldn't send a major European banking institution toppling.

Lloyds has no "material exposure" to Greece, its finance director said, yet its stock slid 8% in a day

The bigger issue is metastasis. Nomura International analyst Daragh Quinn noted, "Sovereign risk concerns are spreading to Portugal and Spain, as witnessed by a widening of bond spreads in these countries." In late April, ratings agency Standard & Poor's not only downgraded Greek debt to junk, it knocked Portuguese sovereigns down two notches as well, and lowered Spain the next day.

Since investors are now worried

Global Economics

about fiscal health of the weaker European players, the borrowing costs of the Spanish, Portuguese, and Irish governments are jumping. Each of these countries may ultimately be forced to seek a bailout and break its pledge to pay off its debts in full.

Even if the worst doesn't come to pass, Europe's banks will have a lot of pain to absorb through write-downs of billions in bonds and loans. Belgian-Dutch insurer Fortis, for example, holds $5.4 billion in Greek government debt—and $4.1 billion of Portuguese government debt, according to bank statements and public documents. Europe's banks aren't saying how much in vulnerable debt they hold overall, but it adds up. The banks' exposure to Portugal comes to $240 billion; exposure to Spanish debt is another $832 billion. Some of the big banks are also heavily involved in Greece. France's Crédit Agricole and Société Générale have big stakes in Greek banks. SocGen's Greek affiliate has lost money every year since 2003.

The second Greek problem for the banks is the collateral issue. The European Central Bank keeps the Continent's banking system functioning day by day through short-term loans to commercial banks. In these cases the ECB usually accepts the banks' holdings of government bonds as collateral. Greek debt is now rated as junk by S&P: Under current ECB rules, Greek bonds can't be used as collateral by the ECB if Fitch Ratings and Moody's Investors Service cut them to junk as well. The Frankfurt-based central bank may have to dilute its collateral rules to keep the Greek banks operating. The ECB's problem of securing solid collateral for its loans will expand greatly if Spain and Portugal lose their investment-grade status too. In the view of Jacques Cailloux, chief European economist at Royal Bank of Scotland Group, the central bank may have to start accepting all government debt regardless of its rating and revive last year's policy of lending unlimited amounts for periods up to a year to support the region's banks.

The final problem for the banks is an indirect one. On Apr. 27, the day S&P downgraded Greek debt, shares in London-based Lloyds Banking Group slid 8%. Lloyds doesn't have any "material exposure" to Greece, Finance Director Tim Tookey told analysts. That won't matter if panicked investors go on strike and stop buying financial securities of any kind in Europe. "It's all about sovereign risk," says Andrew Lim, an analyst at Matrix Corporate Capital in London commenting on the decline in Lloyds shares. "Ultimately it could lead to contagion for funding costs, and Lloyds is going to be hit."

The fear of a monumental banking crisis is triggering calls for an EU-led bailout that goes beyond Greece. "It is perhaps time to think of policy options of the last resort," says David Mackie, chief European economist at JPMorgan Chase in London. "It may now be time for the euro area to do something much more dramatic."

What Mackie has in mind is akin to the Troubled Asset Relief Program that supplied hundreds of billions in assistance to the top U.S. banks, while in Europe's case governments would be the beneficiaries. Mackie calculates that in a worst-case contagion, supporting Spain, Portugal, Ireland, and Greece may cost 8% of the eurozone's GDP. That's equivalent to about $792 billion. "This is a big number, but the region has the fiscal capacity to backstop both banks and these countries," says Mackie. The alternative—an unplanned series of sovereign defaults and an implosion of the banking system—could be far worse.
—*Simon Kennedy, Niklas Magnusson, and Fabio Benedetti-Valentini*

The bottom line *The decision to pursue a regional rescue ultimately depends on Germany, whose voters are hostile to bailouts.*

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BILLION DOLLARS
Estimated exposure of Europe's banks to Greek debt

DATA: BANK FOR INTERNATIONAL SETTLEMENTS

Quoted



The Greek debt crisis "is like Ebola. When you realize you have it, you have to cut your leg off in order to survive."
—OECD Secretary General Angel Gurria, urging Germany to take fast action on an aid package for Athens

GURRIA: ANDREW HARRER/BLOOMBERG

Housing

Home Sales Pick Up —at a Halting Pace

▸ **"We see housing as a lagging sector for some years"**

▸ **S&P/Case-Shiller 20-City Composite Home Price Index**



Here's a strange situation. The housing market is finally showing signs of life, usually a good indicator of a robust recovery. Yet the market is so fragile that no one's proclaiming the return of a powerhouse property sector.

First, the evidence of a turnaround: The S&P/Case-Shiller index of home prices in 20 cities rose 0.6% in February from a year earlier, the first annual gain since December 2006. A homebuyer tax credit, set to expire Apr. 30, has helped. So has an abundance of inexpensive homes. And the Federal Reserve's recent purchases of mortgage-backed securities pushed the cost of a 30-year fixed-rate mortgage to a new low.

Yet the gain in the Case-Shiller index was half the number forecast by economists in a Bloomberg News survey.

Prices declined in 11 of the 20 cities in the index: Las Vegas, down 15%; Tampa, down 6.0%; Seattle, down 5.6%; New York, down 4.1%.

Sales for April will probably increase over March as buyers rush to take advantage of the tax credit. A lasting boost will come only when the employment outlook improves, says Neal Soss, chief economist at Crédit Suisse in New York. "You've really got to heal the fundamentals," says Soss. "We see housing as a lagging sector for some years into the future."

That's quite a change. Residential construction and home sales led the way out of the previous seven recessions going back to 1960. Don't expect that now, said Federal Reserve Vice-Chairman Donald L. Kohn in an Apr. 8 speech. The improvement in housing is showing up only after two quarters of economic expansion. To add to the pain, "a large overhang of vacant homes is likely to weigh on construction for some time," said Kohn.
—*Kathleen M. Howley*

The bottom line *Unsold inventory has to clear before the housing market takes off. Millions of foreclosed homes are glutting the market.*

Energy

Oil Price Paradox: Firm Prices, Weak Demand

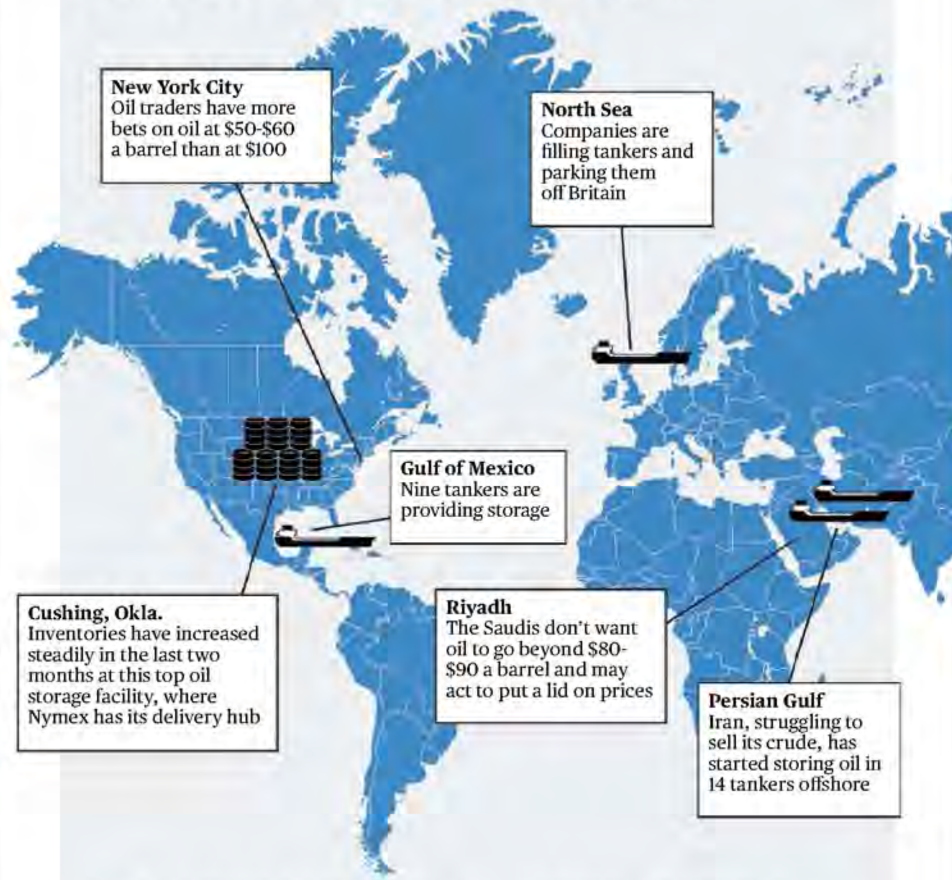
- **Some traders bet a recovery will strain supply by yearend**
- **"Slower rates of ... growth mean that OECD demand has peaked"**

Riding on the blue-green waters off the tiny emirate of Fujairah is a growing fleet of Iranian supertankers. Some 15 of the monster ships, which hold 2 million barrels each, are loitering around the Gulf in hopes that now depressed demand for Iranian crude will pick up. Much the same is happening off the U.S. Gulf Coast, where nine tankers holding some 19 million barrels of oil, a day's U.S. consumption, are idling. At the oil depot in Cushing, Okla., the largest in the U.S., storage tanks are filled to near-record levels.

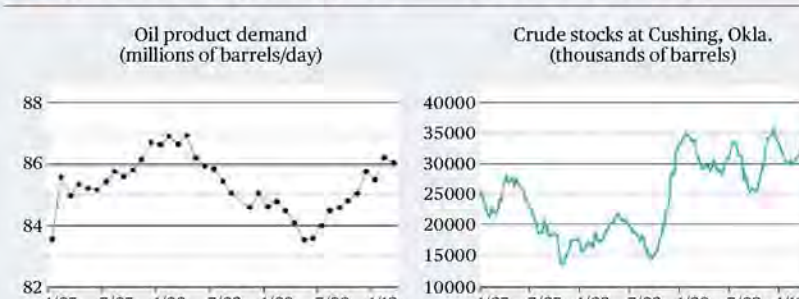
Tankers on a trip to nowhere are symptomatic of today's paradoxical oil

Energy

Oil World: How Much is Selling, Where It's Piling Up, What the Traders Think



▸ While demand is coming back ... ... inventories are rising



Though prices have recovered, concerns about shortages of crude and a repeat of the 2008 spike to $147 per barrel have eased. Demand in the West appears to have peaked, and China, thirsty as it is, cannot consume all the oil being produced. OPEC members are exceeding their quotas and excess oil is getting stored onshore or in tankers. Some traders are talking about $50-$60 a barrel of oil within 12 months.

DATA: ENERGY INTELLIGENCE GROUP (LEFT); U.S. DEPT. OF ENERGY (RIGHT)

market. Current demand looks weak, but prices remain firm, recently testing the highest levels since October 2008. Many traders argue the world economy will stage a strong recovery that strains supply by yearend. "We're heading for $100," says John Kilduff, a partner at Round Earth Capital, a New York hedge fund. "The industry is going to get caught flat-footed again."

Take a hard look at the oil market and such fears seem unfounded. Some forecasters, including the International Energy Agency in Paris, believe this downward shift could be long-lasting. The big price surge of 2008 helped dampen demand while encouraging investment in new wells and increasing supply. Consumption in the industrial countries that belong to the Organization for Economic Cooperation & Development will average 45.4 million barrels per day this year, down a hefty 8.8% since 2005, when OECD oil consumption hit an all-time high. "Slower rates of economic growth mean that OECD demand has peaked," says Rick Mueller, director of oil markets at Energy Security Analysis in Wakefield, Mass. Demand in China may be rising by a brisk 7%, but in the U.S., which consumes twice as much oil, inventories are well above the closely watched five-year average.

While demand in developed markets levels off, global oil output keeps rising. The Organization of Petroleum Exporting Countries, which helped put a floor under prices last year with sharp production cuts, is now opening the valves. Production has risen by 1.5 million barrels per day from the low in March 2009.

Producers outside of OPEC are getting in on the act. The U.S., long dismissed as an energy weakling, produced 5.5 million barrels in March, the highest since 2005, according to the American Petroleum Institute. The world also has a healthy margin of six million barrels per day of spare capacity, largely thanks to a huge Saudi investment program. "The current imbalance between supply and demand will likely lead to increasing storage levels and lower prices going into the summer," says Goran P. Trapp, global head of oil trading at Morgan Stanley in London.

How low? BP CEO Tony Hayward expects prices to stay in the $60 to $90 range for the medium term. A hard core of skeptical traders has a darker perspective on prices than Hayward's more mainstream view. The New York Mercantile Exchange has 130,000 put options for June sales in the $50 to $60 per barrel range compared with just 51,000 calls to buy at $100 per barrel. Says Eugen Weinberg, senior analyst with Commerzbank in Frankfurt: "It's a bubble, and it's just a question of time" before it bursts.

—By Mark Shenk, Stanley Reed, and Alaric Nightingale

***The bottom line** The Saudis are the key to where prices will settle. They like $80 a barrel but could cut output fast if prices drop.*

Drawing Board



60% Increase in average mining wages for Western Australia since 2004



Employment

Australia's Mother Lode Of Mining Jobs

- ▶ Brisk Chinese demand lures miners to scrubby Western Australia
- ▶ "Of course, there is a very real danger you could be killed."

Astonishing fact: Australia's coking coal exports to China increased 1,000% between 2008 and 2009. Asian demand for iron ore, oil and gas, uranium, and other minerals from Down Under has surged too. The states of Queensland and Western Australia, dotted with remote mining towns, are booming as a result. Chartered planes fly in and out of Perth every day, ferrying mineworkers by the thousands to these locations, where they work two weeks on, two weeks off.

Perth is expanding its airport just to accommodate the mining companies, which are hiring at a record clip. If demand stays strong–a big if, given the boom and bust cycles of commodities businesses–then Australia's mines will need another 86,000 workers in the next decade, the government figures.

Average mining wages have risen

ILLUSTRATION BY KIPPER WILLIAMS/GUARDIAN NEWS & MEDIA LTD; PETER ROBEY/MININGPHOTO; GEORGE WASHINGTON: ART RESOURCE; CAP: GETTY IMAGES; KEENE: ANDREW HARRER/BLOOMBERG



Bank of America's history lesson page 23 ▶



60% since 2004, says local recruiter Konrad Forrest, to almost $2,000 U.S. dollars a week, better than the average pay in Australia's flourishing financial services industry. In some cases mining wages have doubled in six years, adds Forrest. Because of the two-week rotation, explains Adrian Morris, a mining electrician with 25 years' experience, some miners "actually only work 22 weeks a year for $100,000" ($93,000 U.S.). Of course, adds Morris, "you are actually putting up with a lot of crap, and there is a very real danger you could be killed."

Electricians—the Aussies call them "sparkies"—are the blue-collar workers most in demand in the mines. According to the Hays Resources & Mining Salary Guide and mysalary.com, electricians in the Western Australia mines made between $83,000 and $120,000 (U.S.) in 2009. In contrast, mining electricians in the U.S. made $49,000 to $59,000 in 2008, the latest figures available. A boilermaker—who repairs and installs equipment—made up to $111,000 in Australia. His equivalent in the U.S. made up to $51,000. Similar pay gaps favor Australian mining managers in unskilled workers. —*Daniel Petrie*

The bottom line *The mining sector's boom soaks up workers. It also has Australia's central bank worried about inflation.*

Resources

Singapore Leverages Its Liquid Smarts

▶ **In three years, $5.6 billion in water treatment facility contracts abroad**

▶ **"Our know-how in water is from our drive to be self-sufficient"**

Singaporeans splash their way through average annual rainfall of 93 inches, three times as much as Londoners. Yet even all that rain doesn't meet the water needs of the tropical city-state, which has virtually no lakes, rivers, or other sources of fresh water and relies on its neighbor (and occasional adversary) Malaysia for supplies. When Singapore split from the Malay Federation in 1965, founding father Lee Kuan Yew set self-sufficiency in water as a national goal. The country has since cut water imports to 50% (from 80%) of its total needs by recycling waste and building desalination plants.

Now, the local companies that have led that effort are winning billions of dollars' worth of contracts to build water treatment facilities worldwide—and mounting a vigorous challenge to global giants such as **General Electric**, France's **Veolia** and **Suez**, and **Thames Water** from Britain. "A lot of our know-how in water technology is from our drive to be self-sufficient," says Beh Swan Gin, chief of the Singapore Economic Development Board, a government agency.

The global market for water treatment technology could more than triple, to $1.4 trillion, in the next decade, researchers Frost & Sullivan predict. Already more than 800 million people worldwide lack clean water. As China, India, and other developing countries grow wealthier, they'll need ever more water to keep factories humming and consumers from going thirsty. Selling water treatment technology for warmer climes, where much of the world's economic growth is likely to take place in coming decades, "is an area where [the Singaporeans] can have a major impact," says David Garman, president of the London-based International Water Assn., an industry group.

The government is investing $240 million in water research over the

Tom Keene's EconoChat

Tom talks with Blackstone Senior Managing Director **Byron Wien** about gold, the markets, and prospects for interest rates

You're optimistic about the economy but at the same time long on gold. How come?
WIEN: I view gold as an insurance policy. Just as you buy insurance on your home and you don't hope it burns down, so you buy gold as a policy against your financial portfolio. The reason is that there's a debasing of all paper currencies, not just the yen and the euro but the dollar as well because we are running unprecedented budget deficits. So I [buy] gold as an insurance policy, not because of inflation or geopolitical risk.

You are looking for higher rates. I presume higher real rates. How does the public recover their 401(k) damage, given higher real rates?
Well, the market is doing pretty well so far this year.

Excuse me, Mr. Wien—the market's doing pretty well? We're up 70% [in] 13 months.
I know. I'm just saying that from Jan. 1 the market has done pretty well. I think the S&P 500 can reach 1300 in the first half of this year. I think interest rates are going to be higher ... [and] Treasury rates will be a headwind for the market. But remember these Treasury rates compared to any [other] recovery cycle are very favorable. Usually at this point in the cycle a ten-year Treasury would be yielding 7% or more. If you look back to the recovery from '73-'74, or from '80-'82, we had much higher rates and the economy was able to recover. Ⓑ



Bloomberg Radio's Keene hosts Bloomberg Surveillance *and* Bloomberg on the Economy.

Global Economics

five years ending in 2012, helping to woo global water companies. Tokyo-based **Toray Industries**, a specialist in filtration, last year set up a facility with a local university. **Siemens** has received some $15 million in grants for a Singapore lab that will be the company's biggest water research facility within two years. GE last year opened a water lab in the city, and by 2011 it expects to double the number of scientists there, to 70.

The growing expertise has helped local companies win more than 100 water-related contracts abroad, valued at some $5.6 billion, since 2007. Government-controlled **Sembcorp** is building a $1.7 billion desalination facility in the United Arab Emirates, a $1 billion desalination plant in Oman, and several projects in China. **Keppel**, also partly state-owned, will finish a $1.1 billion water treatment plant in Qatar next year. And privately held **Hyflux** outbid GE and others on a $468 million contract to build the world's biggest filtration-based desalination plant, in Algeria. "Singapore companies are relative newcomers," says Frost & Sullivan analyst Melvin Leong. But they're giving bigger rivals "a run for their money."
—*Frederik Balfour*

The bottom line *Singapore's expertise in treating water has wooed researchers and is helping build an important new export industry.*

Infrastructure

In North Dakota, Roads Take a U-Turn



- With no money for repairs, one county is going back to gravel
- "It's a lot uglier up here than people think," says the highway chief

A frequent indicator of development is a country's miles of paved roadways. By this measure, at least one corner of America is in reverse. Stutsman County, N.D., a 2,304-square-mile stretch of sparsely populated plains, maintains 233 miles of asphalt roads. The county road department says it can afford to care for just 48 miles, so it's starting to convert the pavement back to gravel.

Four times over the past 22 years, the county has tried to increase property taxes to pay for repairs to highways last paved decades ago. Each time, voters said no. In June, they'll be asked again to approve higher property and sales taxes to fix roads.

Stutsman County (pop. 22,241) doesn't seem especially troubled when compared with other parts of the U.S. Its jobless rate in February was 4%, down from 4.3% five years ago. In addition to wheat and soybean farms, it boasts Jamestown College, an airport (with two paved runways), and a **Cargill** malt plant. **Great River Energy,** which supplies electricity to rural locales, is building a power plant and a $300 million biofuels refinery. *Money* magazine ranked Jamestown, the county seat, among the 100 best small towns in 2007.

But Jamestown's sales tax is already 7% vs. 5% for the rest of the state, and county Highway Superintendent Mike Zimmerman thinks the latest tax hike effort will also fail. Regardless of the referendum's outcome, the county plans to grind up 10 miles of potholed roads this spring and summer to turn them into gravel. Other counties in North Dakota may do the same as they run short of cash. Financially, Zimmerman says, "It's a lot uglier up here than people think." —*Michael Arndt*

The bottom line *Stutsman County is America in miniature. Voters must choose between holding the line on taxes and holding on to services.*

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Cooling Britannia

Britain: What the Next PM Inherits



Voters in the May 6 national elections in Britain still cannot decide which candidate they dislike the least (page 25). That's worrisome, since whoever makes it to power will need plenty of it to fix Britain's weakened economy.

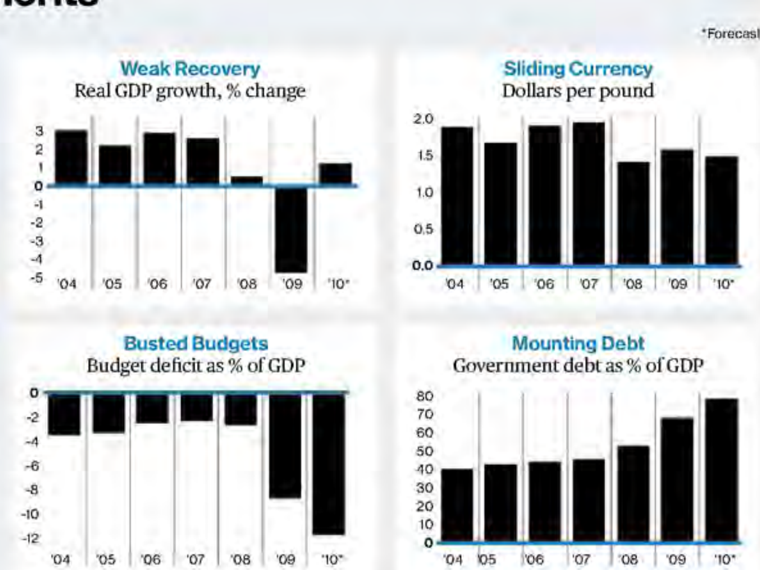


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Charlie Rose talks to

Christine Lagarde



The French Finance Minister speaks frankly about the Greek debt crisis and the need for global financial regulations in this edited version of an interview that aired on Apr. 26

What are the IMF and euro zone countries prepared to do for Greece?
No. 1, we're going to do it jointly with the IMF. No. 2, we will ask the Greek authorities to face reality, disclose numbers, be honest about their statistics, and sort out their public finances deliberately, decisively, and facing public opinion.

How much money is involved?
The Eurozone group will be in for the first year for 30 billion euros, which is roughly $40 billion, and then the IMF will kick in and finance its part as well. I'm talking about the first year of the program, which is going to be at least a three-year program.

What demands are you placing on Greece?
As Prime Minister [George] Papandreou said back in January, Greece's biggest deficit is the deficit of confidence and lack of trust in the numbers and statistics Greek authorities have released in the past. The Greek government is determined to come clean. [And Greece must] restore public finances because at the moment it is running a deficit in excess of 13% of GDP and a debt-to-GDP ratio in excess of 100%. That has to come down on both fronts. How do they do that? By collecting more taxes and cutting public expenses. It's a set of very harsh measures that are not pleasant for the Greek population, but it has to be done.

Where does Germany stand?
Germany is ... the biggest payer because it's the biggest player. Germany's contribution in the first year would be in excess of $8 billion. Our contribution from France would be slightly over $6 billion. And clearly, Germany is concerned, as we all are. But it expresses its [concern], given its own ... domestic issues, in a harsh way. Germany is concerned that there is actual delivery by the Greek government, by the Greek authorities, and by the Greek population.

You mean that Greece is prepared to adhere to the austere measures?
Yes. Absolutely. And that's a legitimate concern because ... we as lenders need to make sure [Greece delivers]. That's where the IMF also comes in because it has the expertise to monitor implementation of the plan.

If you don't do this, what happens?
The markets will keep attacking Greek finances and the spreads—the way you measure at what rate Greece can borrow—will rise, and people that hold debt will dump what they have. We need to show solidarity ... because there is no way Greece is going to be let down.

So what happens if it's not enough?
It will be enough. It has to be enough.

There is a story that some American investment banks helped Greece hide the level of the debt. Is that true?
I've heard the allegations. I know that the SEC has done some investigations in that respect, and I heard that [the situation] was clean under the regulations that existed then. However, I think what the Greece crisis has evidenced is a clear failure on the part of the regulations [governing] credit default swaps on sovereign debt like that of Greece, which can be traded under the counter without any transparency. It's just fully wrong.

There are serious conversations right now in the U.S. Senate about derivatives.
And we're going to have the same conversations in Europe because the European Commission is going to propose in June a draft directive on the use of derivatives that will point in exactly the same direction—transparency, accountability, ability for the authorities to say: "Whoops, stop. It's too much."

Where is the divide between Europe and the United States?
I hope there is no divide because to do a good job we need to have a coordinated approach. That doesn't mean the solutions have to be exactly the same, but they have to be sufficiently consistent so that there are no loopholes, no room for arbitrage by those who want to escape regulations. We need to set the rules properly, discipline people, bring the ethics out of this mess, but at the same time we don't want to kill the economy.

What ought to be the legitimate activity of deposit-bearing banks? Should they be in proprietary trading, hedge funds, that kind of thing?
I think what matters is covering the risks appropriately. And those banks engaged in proprietary trading should have a very high level of coverage. For those in the hedge fund business, same thing. But does it make sense to actually forbid an institution [from engaging in a certain] type of activity? That I'm not sure of.



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The Seed Makers Who Don't Pray for Rain



▶ **Agricultural companies tweak crops to flourish with less**

▶ **"Farmers...are going to pay hundreds of millions of dollars"**

Lance Russell's neighbors aren't used to seeing cornfields. The area near Hays, Kan., where Russell has long tilled 2,500 acres of sorghum, wheat, and sunflowers, has always been too dry and hot for corn. The neighbors will be in for a surprise this summer as Russell plants 230 acres of drought-tolerant corn that **DuPont** is testing. An experimental sorghum plot Russell planted in 2009 improved yields "by a landslide," he says.

After battling for a decade over the $11 billion market for insect-resistant and herbicide-tolerant seeds, DuPont, **Monsanto**, and **Syngenta** are turning their attention to crops that can survive drought. DuPont estimates that up to 150 million acres of drought-tolerant corn eventually could be planted globally. For seed producers, that could add up to annual revenues of $2.7 billion, or about 10% of the global seed market and nearly a third of corn seed sales. "Farmers around the world are going to pay hundreds of millions of dollars" for seeds that require less water, predicts Michael Mack, chief executive of Syngenta.

The technology could change the economics of farming by reducing the need for irrigation, lowering crop insurance premiums, and boosting land values in water-starved regions. With agriculture accounting for 70% of global freshwater use, "The biggest single issue in farming going forward is ... water availability," says Monsanto CEO Hugh Grant.

DuPont and Syngenta will sell conventional seeds; Monsanto's will be genetically modified



Even relatively small changes can make big differences in agriculture, which could see more areas prone to drought due to global warming. "If we can apply two inches less water, that would be a huge benefit because groundwater supplies are always diminishing," says Kevin C. Dhuyvetter, an agricultural economist at Kansas State University.

In the U.S., drought-tolerant seeds could push the western edge of the corn belt farther into Kansas, Nebraska, and Oklahoma. Expanding corn supplies might breathe new life into ethanol projects, which have been hobbled in recent years by rising prices for corn.

DuPont says seed being tested on 5,000 acres across the western Great Plains this year could boost yields in dry environments by more than 6%. Syngenta is aiming to increase yields by at least 10%. Both companies used conventional breeding to develop the seeds for sale next year, with biotech versions (from corn plants whose genes have been tweaked to increase drought tolerance) due later in the decade.

Monsanto is moving directly to a biotech version that it says will increase corn yields in drought-prone areas by 6%-10%. The company says its offering, developed with **BASF,** may be ready in 2012, making it the first seed genetically engineered to tolerate drought. By 2020, Monsanto and BASF hope to see 55 million acres of corn across the U.S. planted with their product. Last year, 71 million acres of corn in the U.S.—82% of the total—were planted with seeds that had Monsanto's genetic traits to help resist insects or herbicides.

Besides its work on drought-tolerant corn, Monsanto is engineering cotton, wheat, and sugar cane seeds for drier climes. Developing crops that require less irrigation not only contributes to more sustainable farming, Grant says, but also will help farmers in the developing world. Monsanto and BASF are donating drought-resistant corn seeds to farmers in sub-Saharan Africa through the Nairobi-based African Agricultural Technology Foundation. ➡

PHOTOS BY DANIEL ACKER/BLOOMBERG

Companies&Industries



Monsanto's Grant: Water availability is "the single biggest issue in farming going forward"

Still, the drought-resistant seeds aren't winning over opponents of genetically modified foods. They say the latest technology may further taint conventional corn supplies and allow large companies to perpetuate an industrial agriculture system that remains too water-intensive. "Their approach is that ... we can use technology to adapt to any problems and make money at the same time," says Maude Barlow, chairwoman of Washington-based Food & Water Watch, a nonprofit that advocates for sustainable agriculture.

Back on the dry plains of Kansas, Russell says such concerns are outweighed by the benefits of growing crops with less water. DuPont's offering outperformed competitors' seeds by 15% last year when the weather was relatively mild. "Honestly, I wouldn't mind a dry, hot year," Russell says, "where I can really test these varieties."
—Jack Kaskey and Antonio Ligi

The bottom line *Technology that boosts crop yields despite dry environments will become a growth engine for agriculture companies.*

Pharmaceuticals

The Lobbying for Death by Diabetes

▸ How a health-reform provision may help spur sales of insulin

▸ "These provisions increase the chance ... any diabetic is diagnosed"

Diabetes is the fifth-highest killer in the U.S. after heart disease, cancer, stroke, and respiratory illnesses. More than 70,000 Americans die of it each year, according to the Centers for Disease Control & Prevention. Still, **Novo Nordisk** says the ailment doesn't get the attention it deserves.

The Danish drug company, the world's largest maker of insulin, says that coroners and doctors underreport how many people die of the illness. To boost diabetes' stature, it used connections in Congress to get a provision into the health reform law that will have it listed far more often as a cause of death.

A higher death toll will mean more government and private funding for treatment, detection, and prevention of the disease, says Michael Mawby, Novo Nordisk's Washington lobbyist. It is also likely to spur higher spending on drugs.

That's not to say that the legislative change is just a marketing ploy. The new provisions will lead to a better understanding of diabetes among doctors, says Robert Anderson, chief of mortality statistics at the CDC. By not listing it as a cause of death, "They certainly underestimate the impact," he says.

Thanks to the reform bill, along with the growing prevalence of diabetes, the company's insulin sales in the U.S. could double to $4 billion in 2018, from just under $2 billion in 2008, predicts Dr. Donny Wong, a London-based pharmaceutical analyst with consultants **Decision Resources**. Industrywide, total U.S. sales of insulin and oral diabetes drugs could rise to $24 billion from $10.3 billion in 2008, he says.

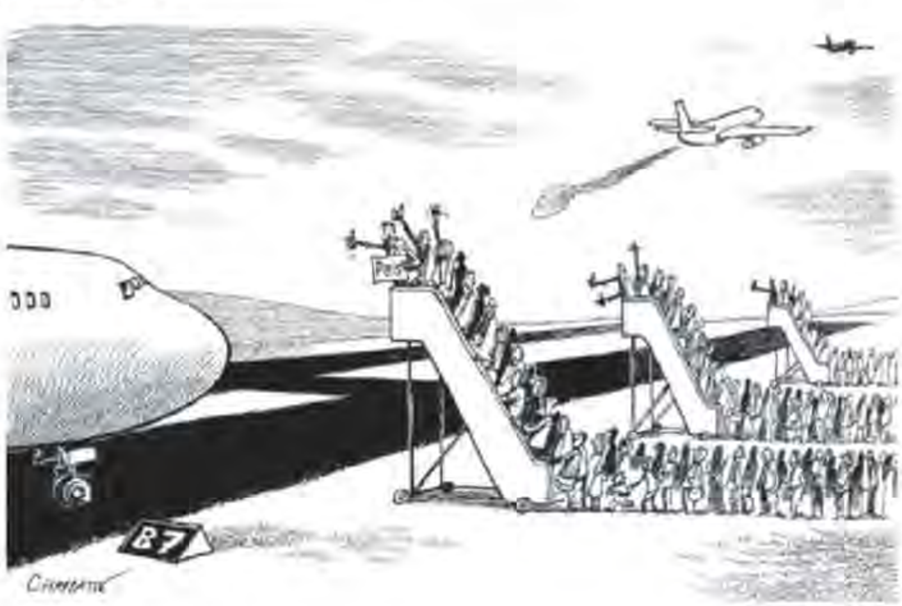
In coming months, regulations will spell out how the new law will be applied. After that, when a patient dies from complications of diabetes such as a heart attack or stroke, coroners will be encouraged to record diabetes as well on the death certificate. That wasn't the case prior to the legislation.

Public health officials will consider the rising mortality data when they allocate research funds. The states also may be required to publish regular reports on how they are improving diabetes care, and medical schools could be asked to improve training in this area. "These provisions will increase the chance that any given diabetic is diagnosed," says Jack Scannell, an analyst with **Sanford C. Bernstein** in London.

Novo Nordisk says it went to Senator Kay Hagan, a North Carolina Democrat, with data showing that almost 10% of the people in her state had diabetes. "She got religion on this. She started looking at the numbers, and she was just great," says Mawby. Hagan says she was interested "because in North Carolina over 600,000 adults have diabetes." Her state also has a 400-employee Novo Nordisk factory in Clayton that manufactures and distributes insulin products, according to the company's Web site.

With Novo Nordisk's help, Hagan began signing up co-sponsors for a stand-alone diabetes bill she introduced in July 2009. It contained the provisions that eventually were included in the health-care overhaul. The company donated $2,000 to Hagan's campaign

Drawing Board



GRANT: TIM BOYLE/BLOOMBERG; WOODS; SCOTT HALLERAN/GETTY IMAGES; CHIP SOMODEVILLA/GETTY IMAGES; BAGS: DANIEL ACKER/BLOOMBERG
ILLUSTRATION BY CHAPPATTE/CAGLE CARTOONS


Goldman's grilling page 27 ▶

through its political action committee.

Novo Nordisk also lobbied Representative Zach Space, an Ohio Democrat who has a diabetic son and who has made diabetes treatment and prevention a signature issue. The company gave $2,820 to his campaign. Space's office did not return several messages seeking comment. —*Drew Armstrong*

The bottom line *Novo Nordisk's lobbying during the health-care debate should result in better care for diabetics and fatter revenues for the company.*

Retailing

For Luxury Goods, the Recession Is History

Luxury chains including Barneys New York and Saks are selling costlier goods, scaling back discounts and promotions they offered to attract shoppers during the recession.

The average price for U.S. luxury goods, excluding jewelry, jumped 11% in March from the year earlier, according to MasterCard Advisors' SpendingPulse data. Says Milton Pedraza, chief executive of New York-based research firm Luxury Institute: "The get-it-cheap party for luxury consumers has ended." —*Cotten Timberlake*

Average price of a luxury handbag sold at U.S. department stores

Pre-recession	2009	2010
$2,000	$1,600	$1,800



DATA: HANA BEN-SHABAT, A.T. KEARNEY

Golf

Forget Tiger. The PGA Has Bigger Problems

- ▶ Corporations—and players—are fleeing lesser tournaments
- ▶ The Tour needs to find 10 title sponsors for next year

Just because Tiger Woods is back in the game doesn't mean the **PGA Tour** can breathe easy. Professional golf grew fat thanks to corporations eager to get their names in front of affluent fans. But that lucrative business model may have fallen victim to its own success.

In recent years, the Tour created a tier of big-purse tournaments, including the $9.5 million Players Championship that tees off on May 6 in Ponte Vedre, Fla. Top players can clear so much prize money from these events that they often skip the secondary matches that make up the bulk of the golf circuit. The lack of name players in turn has led some corporate sponsors to pull out of lesser events at a time when the PGA is already struggling to replace companies—**Chrysler** and **General Motors** among them—lost during the recession.

"The Tour put a lot of emphasis on certain tournaments, which put a lot of pressure on the rest to compete for players and sponsors," says Robert Tuchman, an executive vice-president at sports marketing agency Premiere Global Sports.



Woods has twice won the $10 million FedEx Cup, golf's richest prize, but sits out many second-tier events

Of the 40 tourneys next year that typically bear a corporation's name, about a quarter still do not have "title" sponsors, which pay to have their logos plastered around the course. The problem started in 1999, when the PGA and overseas tours created the World Golf Championships, the first of a new "A" tier of tournaments. Its four yearly tourneys are limited to about 70 of the globe's best players. Purses are $8.5 million per event. In 2007 the Tour created the FedEx playoffs, a series of four tournaments each with purses of $7.5 million this year. The best player gets a $10 million bonus.

Top golfers typically play in these eight elite, the PGA's four "majors," and the Players Championships. These 13 tourneys get players most of the way to the PGA's 15 tournaments-per-year requirement. Thanks to the rich A tier purses, elite golfers play sparingly in the remaining 32.

The B-tier tournaments, with $5 million to $6 million purses, and the C tier, with purses below $5 million, scramble for players with marquee value to attract viewers and sponsors. **Verizon Communications** ended its sponsorship of the B-tier Verizon Heritage Classic when this year's contest ended Apr. 18. The match didn't draw enough viewers overseas, where the telecom giant seeks growth, says Rebecca Carr, vice-president of global marketing at Verizon Business.

The PGA is still struggling to replace corporations that fled during the recession. After months of seeking a new title sponsor for the Buick Invitational in Torrey Pines, Calif., organizers signed **Zurich Financial**'s Farmers Insurance Group—10 days before the match's start.

Mark Toohey, a Farmers senior vice-president, says the insurer got a cut-rate deal for its late entry and has since signed a full-price four-year contract. "Golf is a good age demographic for us," he says. "Its fans are in their prime years of buying insurance." It took 10 months to land **Waste Management** as lead sponsor to replace **FBR Capital Markets** for Phoenix's B-tier tourney. Says David Aardsma, Waste's sales and marketing chief: "We wanted to tell a new story: We're not a



Inspecting a wind turbine in Shandong, China

garbage company, we're an environmental solutions company."

Ty Votaw, the Tour's communications chief, said the renewal or replacement of 16 sponsorships in 2009 and so far in 2010 shows the circuit is doing well in a "difficult time," and he expects 2011 sponsorship vacancies to be filled. "We've come through past recessions in stronger shape, and we expect to again." *—John Helyar and Burt Helm*

The bottom line *Professional golf's period of rapid growth from 1996 to 2008, when prize money grew fourfold to $278 million a year, is over.*

Energy

Where Wind Power Is Blowing Away Profits

- ▶ A surplus in Germany forces utilities to pay customers to use it
- ▶ That in turn "has an effect on investors" and profit

On some nights in northern Germany, utilities pay customers to keep their lights on. In a country with deep green roots, it's an odd fix for an odd problem: Local distributors have no place to store wind energy and no way to dispatch it to areas that need it.

That's led to so-called negative pricing, where grid operators pay utilities to take the unneeded power. Then utilities like **RWE** and **EnBW** of Germany give rebates to customers who use power during periods of excess. Sometimes wind farm operators are even asked to take their turbines offline to trim supply, lowering green operators' profitability.

"We're seeing that wind energy lowers prices, which is great for the consumers," said Christian Kjaer, head of the European WindEnergy Assn., which represents RWE, Spain's **Iberdrola,** and Denmark's **Dong Energy**. "[But] we as producers have to acknowledge that this means operating the existing plant fewer hours a year, and this has an effect on investors" and profit.

Since 2002, Germany has doubled its capacity to generate wind power and has 21,000 turbines producing 7.5% of the nation's electricity. That compares with only about 1% in the U.S. The use of wind has lowered wholesale electricity prices in Germany by as much as 5 billion euros some years, says a study by Poeyry, a Helsinki-based consultant. Spanish prices fell at an annualized rate of 26% in the first quarter due to surging wind and hydroelectric production.

Since October 2008, the abundance of wind power has led to periods where German customers were paid rates that sometimes reached 500.02 euros ($665) a megawatt-hour, or about as much power as used by a small factory or 1,000 homes in 60 minutes.

One solution: Tying power markets together, allowing temporary surpluses in one area to flow toward electricity-poor zones. That's now done between the Netherlands, France, and Belgium; Germany plans to join them on Sept. 7.

Storing electricity may be another fix. In Scandinavia, Danish wind power pumps water into Norwegian and Swedish reservoirs; the water is later released to drive hydroelectric plants. Until there's more integration like that and better transmission grids, expect more Germans to sleep with the lights on. *–Jeremy van Loon*

The bottom line *As wind power generation grows, it can create regional surpluses of electricity. That makes power prices fall, hurting wind profits.*

Quoted



"Just the export business will allow us to add about 3,000 employees at Caterpillar, and between 9,000 and 10,000 at our suppliers in the U.S."

— Jim Owens, CEO, on the benefits from overseas sales in 2010

IMAGINECHINA/AP PHOTO; OWENS: BRENDAN HOFFMAN/BLOOMBERG; PETRO CHINA: QIUFENG/COLOR CHINA PHOTO/AP; ICAHN: CHIP EAST/BLOOMBERG/GETTY IMAGES

Advertising

Bank of America Pays For Its Place in History

▶ By sponsoring a TV series on the nation's past, it highlights its own

▶ "We're trying to show ... we enable opportunities, and we always have"

Bank of America has emerged from the financial crisis with its public image a bit frayed. So it is paying the **History Channel** to help repair the damage. Viewers of the network's *America, the Story of Us*, airing through May 31, will be treated to twice-weekly mini-documentaries showcasing Bank of America's contributions to society through the ages.

Bank of America's two-minute spots trumpet the bank's influence during the era spotlighted in each episode. A segment about the Revolutionary War, for instance, features a spot about the **Massachusetts Bank** (later acquired by BofA) providing capital to early Americans. The mini-doc accompanying an episode about the Great Depression details how BofA helped finance construction of San Francisco's Golden Gate Bridge. Other spots feature its role in funding the Erie Canal and Cecil B. De Mille movies. Who knew?

After a minute of historical footage, each BofA vignette flashes to the present to show how the bank is serving Americans today. "We understand consumers are skeptical and distrustful of banks," says Meredith Verdone, Bank of America's senior vice-president of advertising. "We're trying to show that whether it's capital or lending, we enable opportunities, and we always have."

The $4 million deal is the biggest series sponsorship this year for History, part of the **A&E** joint venture among **Hearst**, **Disney**, and **NBC Universal**.

BofA staff historians developed the mini-docs. That said, don't look for shots of Abe Lincoln waving his Bank of America ATM card. Nancy Dubuc, president of the History Channel, says that the cable network's historians held the two-minute histories to the "highest standard of accuracy." —*Burt Helm*

The bottom line *Marketers increasingly are looking for ways to integrate their message more closely into the story lines of shows on which they advertise.*

In brief

China, Ford, Google



PetroChina workers at the Tarim oil field in northwest China

PetroChina

A Gush of Profits on The Mainland

PetroChina, Asia's biggest company by market value, reported a 71% jump in first-quarter profits on Apr. 27. Net income climbed to $4.8 billion thanks to rising oil production and higher prices. While Western oil majors such as BP and Shell expect their output to fall or stay flat this year, PetroChina is targeting an increase of 3%. The company plans to spend at least $60 billion in the next decade on overseas acquisitions to keep up with the mainland's surging energy demand.

Lions Gate

Slouching Towards Hollywood

The yearlong quest by billionaire investor Carl Icahn to win control of Lions Gate Entertainment made a major move forward on Apr. 27 when the British Columbia Securities Commission voided the Vancouver-based company's poison pill defense. Icahn may still have to increase



his $7-per-share bid for the maker of the *Saw* movies and *Mad Men* TV show, whose stock traded above 7 after the decision. The tender offer expires on Apr. 30, although Icahn (above) is likely to extend it.

Southwest Airlines

Fined for Bumping Passengers

The U.S. Transportation Dept. on Apr. 27 ordered Southwest Airlines to pay a $200,000 fine for failing to comply with federal rules for bumping passengers from flights. The agency claims the carrier did not give involuntarily bumped passengers written notice, or the proper amount of compensation in a timely fashion. Southwest bumped 13,113 passengers last year, more than any other U.S. airline.

Google

The Nexus One Phone Is Causing Static

Verizon Wireless, the largest U.S. mobile-phone company, said on Apr. 26 that it was dropping plans to offer service for Google's Nexus One phone. Without access to Verizon's more than 90 million customers, the Nexus One handset may have trouble competing with Apple's iPhone. Some industry watchers had warned that Google's decision to launch its own branded phone—available for sale only through its Web site—risked spoiling relations with carriers.



Ford

Price Hikes Drive Profits

On Apr. 27 the No. 2 U.S. carmaker, aided by a recovering auto market and higher prices for its vehicles, reported a $2.1 billion profit for the first quarter. Ford also managed to boost its U.S. market share to 17.4% from 14.7% a year earlier, the biggest jump since 1977. Yet analysts warn the first quarter may be as good as it gets this year, given that Ford faces rising costs associated with the introduction of new models.

MTN Group

Telcom Dealmaking in Africa

MTN Group, Africa's largest mobile-phone company, is in negotiations to buy all or part of Cairo-based Orascom Telecom Holdings. Orascom has operations in Bangladesh, Pakistan, Egypt, Algeria, Tunisia, the Central African Republic, Burundi, Namibia, and Zimbabwe, along with North Korea. MTN isn't the only telco seeking to expand its footprint in the Middle East and Africa. Vodafone and Emirates Telecommunications also have been scouting opportunities in the region. Merger talks between MTN and India's Bharti collapsed last year.

Charles River Labs

A Western Takeover in Chinese Pharma

Charles River Laboratories International on Apr. 26 announced that it's buying WuXi PharmaTech for about $1.6 billion. The deal is the largest foreign takeover of a Chinese company. It will give Massachusets-based Charles River, which specializes in testing drugs and medical devices, access to labs in China, where cheaper labor and lab costs are luring some of the world's biggest drugmakers. Novartis and Pfizer are both plowing money into research facilities on the mainland. ●

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Contents Changing of the guard at the SEIU 26 ▶ Goldman on the hot seat 27 ▶ A lifeline for Harry Reid 28 ▶ G-20: Too big to work? 28 ▶ Crowd-sourcing to catch a thief 29 ▶ Commentary: The Senate chokehold 30 ● Edited by Paula Dwyer and Brian Bremner



Candidates Clegg, Cameron, and Brown, the Prime Minister, tangled in Britain's first-ever televised political debates

STEFAN ROUSSEAU/PRESS ASSOCIATION/AP PHOTO

A British Toss-Up With an American Twist

▶ **Nick Clegg came out of nowhere and may now determine who becomes Prime Minister**

▶ **The Liberal Democrats' leader has tapped into public angst and connects with voters**

When British Prime Minister Gordon Brown called an election for May 6, most pundits expected a traditional two-horse race between the Conservative and Labour parties, with David Cameron's Tories snatching a narrow victory in the final lap. They certainly didn't expect Liberal Democrat leader Nick Clegg to crash the party and deny victory to either of his more established rivals—potentially even taking the main prize for himself.

Outside Britain, many will ask, Nick who? The Liberal what? Even some people in the U.K. don't really know them. Britain's third party is the successor to the old Liberals, the dominant center-left party before World War I. Ever since they were eclipsed by the Labour Party, the Liberal Democrats have been a marginal, eccentric feature of British life. The collection of vegans, environmentalists, and single-issue cranks picked up a few protest votes. But there was about as much chance of Prince Charles trying his hand at rap as there was of the Liberal Democrats actually forming a government.

That changed with Britain's first-ever televised debates by party leaders. The Conservatives and Labour both hired experienced debate specialists from the Obama campaign: Cameron got former White House Communications Director Anita Dunn, while Brown worked with debate coach Joel Benenson. It didn't do them much good. While his competition seemed like B-movie actors on a bad day, Clegg, 43, was natural and fresh.

The Cambridge-educated Clegg comes off as an outsider despite bona fide Establishment credentials

The Lib Dems, as they are called, surged in the polls. The Conservatives still have a narrow lead, with some 34%, but Clegg's party is scoring around 30%, and Labour has been pushed into third place, at 28%. After Brown on Apr. 28 was overheard calling a longtime Labour supporter a "bigoted woman," his popularity could fall even further. A win, though, wouldn't make Clegg Prime Minister because it will be tough for his party to take a majority of the seats in Parliament. The top vote winner in each electoral district gets the seat,



Video phones are coming. page 33 ▶

and most districts lean strongly toward either Labour or the Tories, while the Lib Dems' support is more diffuse.

But if the vote ends in a "hung Parliament," with no single party in the majority, it will be Clegg who decides whether the keys to 10 Downing St. go to Brown or Cameron—and he will demand a high price for his support. At the very least, Clegg will want a reform of the voting system so next time around the Liberal Democrats have a chance of making a permanent breakthrough.

How to explain Clegg's rise? And what does it mean for the battered British economy? Britain has finally caught up with American-style, TV-driven politics. Just as Tony Blair's "New Labour" was little more than a vehicle for what was really the Blair Party, the Lib Dems are a front for the Clegg Party. In media-driven politics, an engaging personality who connects with ordinary people can come out of nowhere. Obama did it. Now Clegg is too.

And he has picked up on a nervous, volatile national mood. The economic model that served Britain for the past two decades looks broken. The credit crunch nearly took down the banking system. The deficit has risen to around 12% of gross domestic product, almost as high as Greece's. Unsustainable consumer borrowing has been replaced with unsustainable government borrowing. Scandals over parliamentary expenses and ire over the U.K.'s involvement in the Iraq War despite overwhelming public opposition have left the British in an angry mood. Disillusioned with their political and business elite, voters are ready to lash out at the Establishment. Clegg is the frying pan in a vicious domestic row: something you can hit everyone on the head with.

Yet he offers little more than superficial change. Coming from a wealthy family, the Cambridge-educated Clegg is a bona fide member of the political elite. A former European Union staffer and lobbyist, Clegg is no more a break with the past than either of his rivals. And the Lib Dems have been so far from power for so long—and their surge in the polls was so unexpected—that they haven't had time to think hard about what they might do if they actually won. Their policies seem to be either imitations of the other parties' or hastily cobbled together. The party proposed a "mansion tax" on properties worth more than 1 million pounds. Clegg quickly raised it to 2 million pounds when he realized it might cost him votes in leafy London suburbs. And the Institute for Fiscal Studies, a centrist think tank, calls the Lib Dem pension reform plan "fundamentally misguided."

With the vote split three ways, there are many possible outcomes. A Cameron-Clegg coalition? A Lib-Lab pact, with a new Labour leader? A minority Conservative government? It might be days before the answer emerges. Britain already had a weak economy. Taxes are high, the public sector is bankrupt, and the country needs to face up to a long period of austerity before it can get back on track. Now British voters are likely to add a weak government to the mix—at precisely the moment the country needs strong leadership with clear support and a plan to nurse the economy back to health. *—Matthew Lynn*

***The bottom line** Nick Clegg's Liberal Democrats will likely end up as kingmakers in Britain's elections. They may not be ready for the spotlight.*

Big Labor

The West Coast Upstart Taking Over the SEIU



▶ **Mary Kay Henry's rise signals the end of the Andy Stern era**

▶ **"Our local unions and divisions should drive our national priorities"**

Note to Secret Service agents: Don't expect to see Mary Kay Henry at the White House gate very often.

Henry is poised to become the next Service Employees International Union leader now that Anna Burger, the candidate favored by departing President Andy Stern, dropped out on Apr. 28. In promising to spend less time cultivating Washington and more time healing rifts in the 2.1 million-member union, Henry won support from local presidents representing 60% of the membership. An official vote is set for May 8. "Our local unions and divisions should drive our national priorities, not the other way around," Henry wrote in an Apr. 26 memo to SEIU leaders.

Stern, 59, was at the White House 22 times in the first six months of the Obama Administration, making him its most frequent visitor. He was heavily involved in helping plan legislative strategy to pass the health-care law. Critics within the union accuse Stern, who is stepping down after 14 years, of obsessing about politics, centralizing power, and installing his aides to run locals, says Nelson Lichtenstein, a labor history professor at the University of California in Santa Barbara.

Four of the union's nine international vice-presidents endorsed Henry, an organizer since 1979 and a founder of the union's gay and lesbian caucus. Henry, 52, led recruitment drives in California for health-care workers at **Tenet Healthcare** and **Beverly Enterprises.** "She is a somewhat unexpected choice," says Harley Shaiken, a labor professor at the University of California at Berkeley.

Henry says she won't abandon politics altogether. She pledged to maintain the union's political clout for the November midterm elections; the SEIU spent $85 million to help elect Democrats in 2008. "It was never an either-or situation," Henry said in her memo. *—Holly Rosenkrantz*

***The bottom line** The successor to Andy Stern, one of the most powerful yet divisive labor leaders of his generation, looks to heal the internal rifts.*

Quoted

"This will be the first of many projects up and down the Atlantic Coast."
—Interior Secretary Ken Salazar on Apr. 28, approving the first U.S. offshore wind farm in the waters near Cape Cod



(FROM TOP) CSU ARCHIVES/EVERETT COLLECTION/REX USA; JOSHUA LOTT/BLOOMBERG; COURTESY OF SEIU



Goldman Sachs' Tourre, named in an SEC lawsuit, preparing to testify before a Senate panel

CHIP SOMODEVILLA/GETTY IMAGES

Regulation

In Goldman's Defiance, A Hint of Truce

- The beleaguered firm and the SEC have equally high stakes
- "Goldman's lawyers are certain they played by the rules"

The caning of **Goldman Sachs** made for compelling theater. Senators whacked away with populist fury. Defiant traders absorbed bipartisan blows without apology. Yet more went on in the Apr. 27 Senate hearing than may have met the eye. In Goldman's subtle signaling are hints of where this clash between Wall Street and Washington may be headed.

That destination is likely to be a negotiated truce. In the hearing before the Senate's Permanent Subcommittee on Investigations, Chairman Carl Levin punishingly interrogated Goldman traders and top executives over the morality of their actions. Senate Republicans, possibly seeing political peril in siding with Wall Street, the next day stopped blocking floor debate on the financial regulatory overhaul bill.

Now, the Goldman drama shifts to federal court, where the legality of the firm's behavior is in question. The Securities & Exchange Commission has accused Goldman and Fabrice Tourre, the French banker who referred to himself in an e-mail as "Fabulous Fab," of defrauding a client on a mortgage-related investment in 2007. Neither side can risk a loss and the accompanying reputational damage. So, merits aside, a settlement is in both parties' interest.

True, CEO Lloyd Blankfein pronounced himself untroubled even after seven hours of testimony from current and former Goldmanites about how the bank created risky securities out of toxic mortgages, sold those securities to clients, and then bet against the same securities with its own money. "I heard nothing today that makes me think anything went wrong," he told the Senate panel.

The firm's tack, however, is more nuanced, according to two Goldman executives involved with the strategy. The bank wants to appear as if it's trying to be more accessible and cooperative with lawmakers and the media so it can win the PR war and strengthen a weak bargaining hand. All the while, Goldman seeks to cast doubt on the substance of the legal case.

"I heard nothing today that makes me think anything went wrong," Blankfein told the Senate panel

Blankfein's public self-assurance contrasts with some of his firm's private actions. Goldman is so radioactive in Washington—some lawmakers are handing back its campaign contributions—that it has had to quickly assemble a small army of image consultants. It bolstered the legal team with Greg Craig, the former Obama White House chief counsel who is now a partner in the Washington office of Skadden, Arps, Slate, Meagher & Flom. Craig specializes in managing Capitol Hill controversy. Sullivan & Cromwell, Goldman's longtime New York law firm, will seek to fend off the SEC's civil fraud case.

The mission of other retainers is to convince the SEC that perhaps it would be better for all concerned to dial down the volume. That is the message of Arthur Levitt, a venerated former SEC chairman and adviser to Goldman, who is spreading the word in Washington that, having slept through the leverage-happy runup to the Wall Street debacle, the SEC now risks appearing as if it's grandstanding in the Goldman suit. (Levitt is on the board of Bloomberg L.P., parent of *Bloomberg Businessweek*.)

"This is a suit which I think should be settled promptly, not just for Goldman Sachs, not just for the industry, but for the economy as a whole," Levitt told Bloomberg TV on the day of the Senate hearing.

The SEC, the agency that for years ignored Ponzi master Bernard Madoff, has to worry about the prospect of losing. Goldman's conduct might not play well in front of a lay jury. But the initial audience for the SEC fraud suit will be a federal judge in Manhattan, Barbara Jones.

In coming weeks the bank is expected to file a motion to dismiss the SEC action. Goldman's lawyers at this stage will not have to get into the potentially ugly details concerning how it did or didn't inform its client, **IKB Deutsche Industriebank,** that a "synthetic" mortgage security bought from Goldman had been designed with the help of a hedge fund. Nor will it have to elaborate on whether the fund, **Paulson & Co.,** intended to bet against the security, as the SEC charges. Instead, Gold-

man could argue that the suit should be dismissed because it had no legal duty in the first place to make such a disclosure, regardless of Paulson's role.

Blankfein telegraphed the argument at the hearing. He said Goldman doesn't have to inform its customers when it "shorts," or bets against, the very investments it sells to those customers. "No, I don't think we have to tell," the CEO told Levin.

If it turns out that Goldman's boilerplate prospectus disclaimers pass legal muster, the defense could conceivably fly, says John W. Moscow, a partner at the Baker Hostetler law firm. Moscow spent 30 years handling complex financial fraud cases as a prosecutor in the Manhattan district attorney's office. "Goldman's lawyers are certain they played by the rules, whatever ordinary people might think of those rules," he says. "It could work."

That's one big reason why, once testosterone levels have returned to more normal readings, the SEC and Goldman may begin to talk settlement. Goldman certainly has the deep pockets to fund a record-setting truce. The bank might even be willing to agree voluntarily to improve client disclosures, setting a new standard that others on Wall Street would emulate. Such a pact would be one way both sides could begin to restore their credibility.
—Paul M. Barrett and Robert Schmidt

***The bottom line** Neither the SEC nor Goldman Sachs can afford to lose, increasing the odds of a settlement.*

Immigration Reform

Harry Reid's Iffy Gambit To Woo Hispanic Voters



▶ The Democratic leader moves immigration to the front of the line

▶ "Do they want a bill, or do they want an issue?"

Senate Majority Leader Harry Reid, polling below 40% in his Nevada reelection campaign, has reached for a political lifeline by calling for fast action on immigration reform. He hopes to avoid a repeat of 2004—when the last Democratic leader, Tom Daschle, was tossed from office—by energizing Hispanics, who make up 15% of Nevada voters and could shape outcomes in Colorado and California. What Reid almost certainly won't get is legislation signed into law, since he has no actual bill and concedes he doesn't yet have the votes to bring one up.

That's politics, you might say. Yet by playing this particular line of politics, Reid risks throwing other legislation overboard. Most notably, he endangered a fragile climate change and energy bill that a tripartisan trio of Senators—John Kerry (D-Mass.), Lindsey Graham (R-S.C.), and Joe Lieberman (I-Conn.)—was set to introduce on Apr. 26. After Reid signaled that he might move immigration ahead of climate in the legislative queue, Graham bolted from the bill, accusing Reid of a "cynical political ploy" that would threaten both measures. "If you do [immigration] before the groundwork has been laid and you fail, you could go a generation before anyone takes it up," says Graham, one of the few GOP members working with Democrats on either issue—and taking heat for it at home.

Would Reid's ploy even work? Labor unions and Hispanic groups argue that advancing the immigration issue will rally party voters. Unions have been pouring money into Reid's campaign, donating $357,000 since 2005 through the end of last year. Yet Jennifer Duffy, Senate editor for the nonpartisan *Cook Political Report*, sees risks. "It fires up the Republicans even more than they already are," she says.

The last try at an overhaul was in 2007, when the most ambitious attempt to change immigration law in 20 years was blocked in the Senate. President Obama says some states are filling the void with "misguided" efforts such as a new Arizona law requiring police to check the immigration status of anyone suspected of being un-

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Financial Diplomacy

The Group of 20: Too Big to Succeed?

The G-20 synchronized monetary and fiscal policies during the financial crisis. As its meeting on Apr. 23 showed, coming up with policies to avert the next one will be tougher. On June 26-27, the G-20 will hold a summit in Toronto that will take up financial regulatory reform. Here's a guide to the issues that divide them.
—Simon Kennedy



Hedge Funds
The EU aims to more tightly regulate hedge funds and may require U.S. funds to register if they want to operate in its markets. The U.S. objects.



Capital Ratios
The U.S. and U.K. want banks to hold far more capital in reserve; Germany, France, and Japan prefer letting banks gauge their own risk exposure.



Bank Tax
Canada is resisting a push by the U.S., Germany, and U.K. to tax banks to fund future bailouts, arguing it is punitive and might encourage recklessness.



Yuan Devaluation
The U.S., Brazil, and India want Beijing to revalue the yuan, which they argue is undervalued and gives China an unfair edge in global trade.

LAURA RAUCH/AP PHOTO

documented. Business groups fear their quest for increases in legal immigration to address worker shortages will be left out of a Democrat-only bill. "The Democratic leadership is facing a question: Do they want a bill or do they want an issue?" says Tamar Jacoby, president of ImmigrationWorks, a coalition of state-based business groups that favor comprehensive reform.

Having triggered the uproar, Reid began backing away from the idea, saying immigration and energy were "equally vital. I'm committed to doing both." Or at least talking about them.
—*Laura Litvan*

The bottom line *Putting immigration atop the agenda could energize Hispanics, but it won't pass a bill. And it could kill any chance of climate action.*

Government Fraud

Tracking Stimulus Scamsters in Real Time

▶ Crowd sourcing and data scrubbers are part of the mix

▶ "My rear end" and "the President's credibility [are] on the line"

Some $318 billion in federal stimulus money has been dispersed to build new roads and help the jobless as part of the American Recovery & Reinvestment Act that passed in February 2009. Since then, Vice-President Joseph Biden, asked by the President to monitor the spending splurge, has feared a massive fraud case might undermine support for the program. Thus far, it hasn't happened.

The early success owes much to "crowd sourcing" and data mapping techniques the Administration has adopted to track stimulus outlays and detect fraud. "I expect it to be a template from this point on how the federal government deals with taxpayers' money," says Biden.

A recovery.gov Web site features splashy interactive graphics to detail spending—and urges online visitors to e-mail tips about suspected fraud. It's the surest way to prevent, say, a convicted contractor from reincorporating a new company under his wife's name and applying for stimulus money, explains Earl Devaney, the special inspector general who oversees stimulus spending. "Only local folks can connect those kinds of dots," he says.



A more aggressive anticorruption effort takes place from a Pennsylvania Avenue office, where a fingerprint scan is required for entry into a windowless "Recovery Operations Center" (above). There, staffers scrub government databases and public records, looking for bankruptcies, past criminal records, tax liens, and other signs of trouble from individuals or companies seeking public stimulus funds.

The aim is to catch fraud before it happens. Digitized maps are projected onto screens to analyze data from neighborhoods receiving federal spending. It's Doppler radar for scams: One map aggregates contract spending and crime levels, while another focuses on foreclosure rates or reported Medicare fraud. The data guide Devaney's team about what projects might deserve scrutiny.

Devaney has opened 245 fraud investigations, though no indictments have been issued. Typically, U.S. programs lose 7% of their money to corruption, says the Association of Certified Fraud Examiners. Do the math, and that suggests $55 billion of the $787 billion stimulus program is at risk. "You can't throw that much money out that fast without having it abused," says Senator Tom Coburn (R-Okla.). Biden and Devaney hope their surveillance system will limit the damage. "My rear end is on the line," says Biden. "And the President's credibility is on the line."
—*Hans Nichols and Julianna Goldman*

The bottom line *The White House's high-tech approach to tracking stimulus spending may serve as a model to future Administrations.*

"Super Citizen" for President

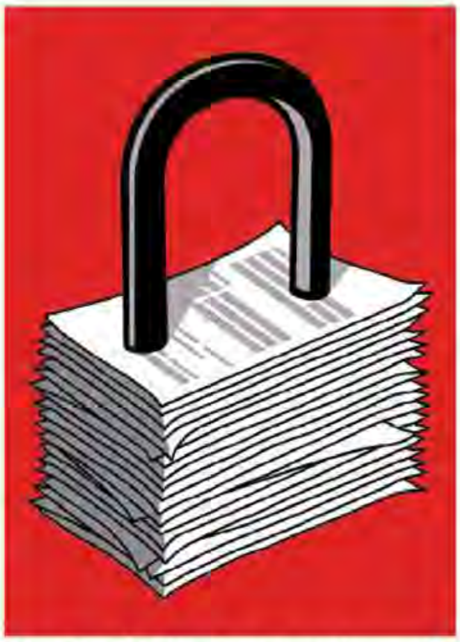


Antanas Mockus, who is running for President in Colombia's elections on May 30, is dismissed as a clown by his opponents. Yet an Apr. 26 poll puts the former math professor and mayor of Bogotá in first place. Mockus, 58, is known for antics such as dressing as "Super Citizen"–his costume is heavy on the spandex–to teach civic responsibility. He once silenced a roomful of noisy students by dropping his pants. Behind the fun is serious politics. Venezuelan President Hugo Chávez recently said that Mockus' chief opponent, former Defense Minister Juan Manuel Santos, could "generate a war" if elected. Mockus says he respects Chávez. Mockus is popular with the urban middle class, though clearly more is at play. "He's a question mark," says political science professor Felipe Botero, "but people like him." —*Helen Murphy*

(TOP) PHOTOGRAPH BY KHUE BUI FOR BLOOMBERG BUSINESSWEEK; (BOTTOM) JAVIER CRUZ/REVISTA SEMANA

James Warren

Why the Senate Is Sitting on 309 Bills



The "hold" is a tactic so juvenile that it isn't even in the Senate rules. Yet it's never been more common, and it's keeping important legislation at bay

By Madisonian design, the U.S. Senate is meant to be the saucer that cools the passion of the House of Representatives. In the 111th Congress, it's become a freezer. There are currently 309 bills that have passed the House and sit waiting for action—any kind of action—in the Senate. The legislation on ice affects everything from improved training for commercial flight crews to extending life insurance benefits for disabled veterans. This is not trivial stuff.

Any number of tactics can halt a bill. Previous generations favored the stay-up-all-night filibuster, which, for expediency's sake, has been replaced with the mere threat of a filibuster. (Thus the Democratic gambit to use so-called reconciliation, with its need for a simple majority, to ram through health-care legislation.) Many of the 309, however, have been buried by a single tactic, the secret "hold," which allows any senator to halt floor consideration of any matter. The hold isn't in the Senate rule book; it's an informal practice that, as viewed by Donald Ritchie, the Senate's official historian, is "symbolic of the hardening of party lines and polarization. Even with Richard Nixon and Jimmy Carter, people didn't block things like this."

Walter Oleszek of the Congressional Research Service says the origin of holds "appears lost in the mists of history." The clearest beginning dates to Lyndon Johnson's tenure as Senate Majority Leader between 1955 and 1961, when one could proclaim a nomination "personally obnoxious," according to Johnson biographer Robert Caro. For decades its use was benign; if a senator was running late to a vote, hadn't read a bill, or just wanted to seek a few small changes, he could phone in a hold. The late Ohio Democrat Howard Metzenbaum, never able to get on the Finance Committee, held up tax bills to give himself time to go over them and make sure he wasn't being hoodwinked.

Now a senator or aide simply calls the party's secretary and announces that he or she is halting a bill's consideration, with his or her identity disclosed to the party leader but not to the other side. The Honest Leadership & Open Government Act of 2007 amended the Senate rules—even though holds aren't in the rules—to require public notice of a holder's identity after six days. So what did senators do? Find a way around the rule by "tag-teaming"—in which one senator releases a hold after five days and another swoops in immediately to put on another hold. Then they trade places indefinitely. Assistant Majority Leader Dick Durbin of Illinois, the Senate's No. 2 Democrat, can't say exactly how many Republican holds there are and who placed them. His "strong suspicions" aside, he's not allowed to know.

The 309 pending bills constitute 70% of those sent the Senate's way this session, according to Durbin. This obliterates the norms of past decades, with both parties to blame. As Rutgers University historian Ross Baker put it: "The Senate is now one of the few places in the world where adults can have tantrums, where the power of the individual to cause mischief is pretty much unlimited."

What's most notable—and galling—is how important some of these bills are and how many made it through the usually fractious House with bipartisan support. There's the 409-11 vote for the Airline Safety & Pilot Training Improvement Act that provides more training for crew members and limits the number of flight hours allowed for pilots. There's the bill reauthorizing the $9.9 billion appropriation for the Coast Guard that squeaked by 385-11. Reauthorized funding for the Transportation Security Administration passed 397-25. The $234 million for the Job Creation Through Entrepreneurship Act that generates jobs through small business and veterans' business centers was a winner on a 406-10 vote.

Other bills whizzed through on voice votes, including $50 million to assist homeless military veterans. Americans depend on these services and presume that their senators will have the grace to do their jobs. But if "the era of Senate comity is over," as Durbin frustratedly puts it, how does this movie end? Former Majority Leader Howard Baker, a retired Tennessee Republican famous for his civility, tells me he was never too bothered by Democratic holds. He just sought out his unhappy colleague and started listening. Of course, that's impossible if the Senate leaders don't know the identity of the obstructionist. So rather than eliminate holds, let's demand that they subject them to full disclosure and accountability. Wouldn't it be nice to know who's slowing down the people's work? Then we could tag-team them right out of office. B

NOMA BAR


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Technology

Video Phones are Coming. And This Time It's for Real

▶ **Speculation about Apple's next iPhone has triggered new excitement about a decades-old idea**

▶ **New smartphones, faster networks, and consumer acceptance: "The perfect storm is here"**



ILLUSTRATION BY DAN GOLDMAN

Ever since a mid-level engineer at **Apple** left a prototype iPhone in a Silicon Valley bar on Apr. 18, the tech world has been consumed with the ensuing drama. Will the person who sold the gadget to the blog Gizmodo go to jail? Were the police justified in seizing the blog editor's home computers? Getting less attention is the little dot just above the touchscreen on the device. It's a front-facing camera, and in all likelihood it's there for one reason: video phone calls.

Apple wouldn't comment for this story, and there's no way of knowing whether the prototype will ever get to market. Yet the device has generated excitement about mobile video communications. "With its size, market share, and influence, Apple could help move video calling to the mainstream," says Eric Kintz, a general manager at Logitech, the computer-peripheral maker.

Dreams of video phones have been around since before Dick Tracy swapped his 2-Way Wrist Radio for a 2-Way Wrist TV in 1964 (graphic, page 34). These days the technology is vastly improved. Forget tiny screens with fuzzy picture quality and voice-synchronization reminiscent of old Godzilla movies. Thanks to powerful microprocessors and luminous screens, smartphone video can look as good as standard TV.

Many industry executives say so-called 3G cellular networks now common worldwide are actually up to the task. "When the network isn't swamped, we're seeing speeds that are faster than most of us get on our DSL lines at home," says Joel Brand, vice-president for product management at telecom consultancy

Small investors sit out the stock rally page 41 ▶



Haven't We Seen This Video Before?

In 1915, inventor Nikola Tesla predicted that soon "all the inhabitants on this earth [would be able to reach] one another, not only by voice, but by sight." He had the right idea, just a little early. Some milestones between then and now:



1950s
"Phone of Tomorrow"
Very early nonworking prototype



1964
2-Way Wrist TV
Dick Tracy upgrades from the wrist radio



1964
AT&T Picturephone
A non-wireless call at New York World's Fair



1993
Intellect
Wooden prototype, now in Smithsonian



1995
An early Panasonic
One of the first digital portable phones



2002
Panasonic P2101V
Offered by Japan's NTT DoCoMo



2007
Nokia N95
Online video from 5-megapixel camera



2009
LG GD910
Wrist phone with touchscreen

Bytemobile. He adds that while many consumers on 3G networks will suffer bad connections now and then, most big cities will have higher-capacity 4G systems by 2012.

Expect a wave of new video-communication technology by Christmas. **Skype**, based in Luxembourg, plans to introduce a version of its online video-chat service for cell phones. "We intend to set the bar on mobile video calling," says Russ Shaw, general manager of Skype's mobile business unit. **Logitech**'s Kintz says his company will introduce a cell-phone version of its Vid videoconferencing service by the end of the year. "There's no question many of our customers will offer mobile video capability by this fall," says Joyce Kim, chief marketing officer at Global IP Solutions, which makes technology used by Google, Yahoo!, and others to make phone calls over the Internet. There will also be new hardware to run those services from Skype and others, including smartphones, tablet computers, and other gadgets powered by Intel's soon-to-be-released "Moorestown" chip.

An obstacle to consumer acceptance of earlier generations of videophones was the thought of being seen in a bathrobe or without makeup

Mobile is part of a larger trend toward videoconferencing, whether it's on a phone, a PC, or a TV. **Cisco Systems** has begun trials for consumer versions of its $30,00-plus TelePresence systems used by corporations. Cisco Senior Vice-President Marthin De Beer says the product will be on the market by yearend. Logitech says it will also introduce video-calling for the home.

An obstacle to consumer acceptance of earlier generations of videophones was the thought of being seen in a bathrobe or without makeup. (Industry executives also fret about how to solve what we'll call "the nostril problem." People tend to tilt the phone away from their faces, which positions the camera in such a way as to give the callee a view up the caller's nose.) The current generation of Twittering, YouTube-ing oversharers has fewer privacy concerns.

Millions of people already have video chats on their PCs and laptops."We think mobile video calling will first be embraced by tech adopters, frequent travelers, professionals, and young people who are engaged with social media and accustomed to watching Web video," says Skype's Shaw. Pankaj Kedia, an executive in Intel's Ultra Mobility Group, says computer-like smartphones, faster networks, and consumer readiness mean the technology is ready to take off. "The perfect storm is here," he says.

Then there's the Apple effect. If the new iPhone isn't a videophone, there will almost certainly be one eventually. The same goes for the iPad, the first version of which had no camera. No doubt, many would dismiss video calling as a gimmick. "I can't even make a phone call in San Francisco," says Broadpoint Amtech analyst Brian Marshall.

Still, Apple has a history of turning yesterday's geeky dreams into mainstream must-haves. Says Frank Meehan, who runs INQ Mobile, a handset maker backed by Hong Kong telecom carrier Hutchison Whampoa: "If anyone can make it work, it's Apple."
—Peter Burrows, with Joseph Galante, Olga Kharif, and Connie Guglielmo

The bottom line *Apple's next-generation iPhone could move video calling into the mainstream. Expect a wave of new products by Christmas.*

Smartphones

Nokia's iPhone Envy —and Comeback Plan



▶ Lacking a hit handset, the Finnish company's profit margins are falling

▶ Once the BMW of mobile, now "Ford comes to mind"

Two years ago, **Nokia** opened a store on London's Regent Street (above) to showcase its highest-tech handsets. Today, the phones and Nokia logos are gone and the windows on the empty storefront are covered in black plastic. To understand why, look across the street at the Apple Store, where Federico Crosato, 24,

is ogling an iPhone. "I'd definitely pay more for Apple than Nokia," he says.

Nokia was once the BMW of mobile, says Gartner researcher Carolina Milanesi. These days, she says, "Ford is what comes to mind. Reliable, not expensive."

In announcing its earnings on Apr. 22, Nokia said operating margins for its handset unit will likely be 11% to 13% for the year, down from 20%-plus for much of the past decade. For the current quarter, they could drop to 9%, as the average price of its smartphones has fallen by 18% over the past six months, to $206. Discounts have taken a toll on profits, which were $467 million for the first quarter. While that number was nearly triple the results of a year earlier, it fell shy of analysts' estimates, sending Nokia shares down 14% on the day of its earnings announcement.

CEO Olli-Pekka Kallasvuo intends to fight back with products that are "more intuitive, fun, and faster," he assured analysts in a conference call on Apr. 22. The problem is, Nokia's attempts at touchscreen phones so far have been underwhelming. The 5800 XpressMusic and N97 have sold reasonably well, but buyers have complained about sluggish response and cluttered, buggy software.

On Apr. 27, Nokia introduced the N8, a touchscreen phone with a new version of its Symbian operating system. The model won't be shipped until this fall, though. "While this is somewhat later than our original internal plan, it is really most important to get the quality and the user experience right," Kallasvuo said on the conference call. Smartphone chief Jo Harlow insists Nokia is doing just that with the N8 and other new models. The devices "will change the perception that people have."

If Harlow is wrong and the new smartphones fail to wow customers, they "will do further damage to a brand that's already weakened," says Ben Wood, an analyst with research house CCS Insight in London. "Another N97 ... could have a catastrophic impact on Nokia's ability to compete in the higher-value smartphone space."

Nokia is still the world's No.1 handset manufacturer. It sold 108 million phones in the first quarter, up 16% from a year ago. But investors don't seem to have much faith that it will regain its strength. Since 1999, Nokia's market value has fallen from $208 billion–

➔

Speed Dial

HP Gets Its Hands On Palm



On Apr. 28, Hewlett-Packard bought smartphone maker Palm for $1.2 billion in cash. Todd Bradley heads up HP's Personal Systems Group

You used to run Palm, and walked away in 2005. What has changed? What is it about the company that attracts HP now?
Our focus as we looked at Palm was to further enhance our smartphone position. We looked to acquire them for the webOS, their broad patent portfolio, and broadly deploy devices around the webOS. As our customers are moving more and more into this connected world that they're all creating, they will be looking to HP to deliver products and services that meet that need.

Which was more important, Palm's webOS software or its patents?
Clearly, webOS and its ability to offer great multitasking.

Some analysts were saying Palm was worth nothing.
And some people said it was worth $14 a share. We paid $5.70 a share. We judged our willingness to pay based on the opportunity.

When did you start looking?
They're one of many [companies] we look at over time. We always track competitors and our opportunities.

Will webOS replace Windows on all of your smartphones?
Microsoft will continue and will always be a huge strategic partner for Hewlett-Packard. Our focus is to create choice for customers around those products and services that will allow them to connect to the information they need as quickly and as safely as they can.

Palm is a consumer play. How much room is there to expand there?
I've always thought Palm has always been a "prosumer" play. We see opportunity in our channel and in enterprise sales. It will be our job to connect to that information that's critical, in any segment.

Analysts are saying this acquisition was in response to Apple's growing influence. Was Apple a factor?
We do acquisitions that are based on our own strategic growth plans. Clearly the segments that Apple's moved into are fast-growing, but so are ours. We've done this acquisition because of the capabilities that the webOS brings.

How hard do you think it will be to integrate Palm's culture with HP's?
It's been many years since I was involved in Palm. My focus is on creating awesome connected products. The software development team is very important for us. We incented them. [CEO] Jon Rubinstein has agreed to stay on at HP. That will be a big help.

Do you consider this a coup for HP?
This is going to make HP even bigger than it is today. I think of it as a very strategic acquisition with lots of upside for Hewlett-Packard and our customers. *—Cliff Edwards*

(LEFT) CSA ARCHIVES/EVERETT COLLECTION/REX USA; TRIBUNE MEDIA SERVICES; ATT ARCHIVES AND HISTORY CENTER; SMITHSONIAN NATIONAL MUSEUM OF AMERICAN HISTORY; JUNJI KUROKAWA/AFP/GETTY IMAGES; ROSLAN RAHMAN/AFP/GETTY IMAGES; NOKIA; LG; (CENTER) PHOTOGRAPH BY ANDREW TESTA FOR BLOOMBERG BUSINESSWEEK; (RIGHT) ANDREW HARRER/BLOOMBERG NEWS

then Europe's highest—to $45 billion. "They've had product delays across the board, while Apple is stacking up substantial gains," says Alexander Peterc, an analyst at Exane BNP Paribas. "Even if Nokia comes out with some devices in the second half and they're pretty damn revolutionary, it will be hard for them to compete." *—Diana ben-Aaron, with Matthew Campbell and Howard Mustoe*

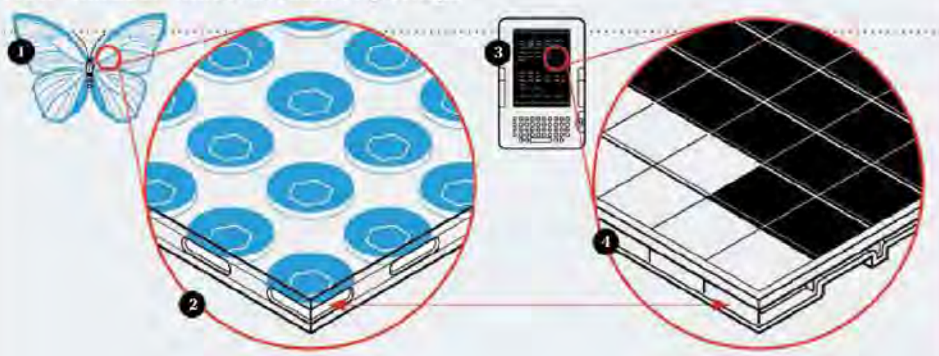
The bottom line *Failure to create a top-selling smartphone could "have a catastrophic impact on Nokia's ability" to compete with Apple and RIM.*



Deconstructed

Qualcomm's Bright, Low-Power Screen

How "Mirasol" Imitates Butterfly Wings



1. In butterflies, a colorless, translucent membrane, covered by a layer of microscopic scales, is hit with sunlight. Light hitting the wing interacts with light reflecting off the wing, much like a prism.

2. Light passes through the membrane. As the butterfly's wings flap, sunlight refracts at different wavelengths. The waves of light turn color on and off, giving the wing its shimmering iridescence.

3. Qualcomm's Mirasol screen replicates the effect with two glass panels and tiny mirrors that reflect colors onto the screen. The play of light on the mirrors defines the colors in individual cells.

4. The device delivers bright color in strong light, only drawing power when the display is refreshed. Unlike an LCD screen, however, it doesn't work in a dark room; an e-reader would need a backlight.

The Wright Brothers were inspired by watching birds fly. **Qualcomm** CEO Paul Jacobs is modeling his new technology on butterfly wings. Qualcomm has developed a screen for digital devices that uses ambient light to make images visible, instead of the backlighting built into most laptops and **Apple**'s iPad. That means the Mirasol, as the screen is called, eats up very little battery power and is usable even in full sunshine. Unlike the screen in **Amazon**'s Kindle, which also relies on ambient light, the Mirasol features full color and can show video.

The so-called reflective displays use an array of microscopic mirrors to exploit an optical phenomenon called iridescence (see above). When light passes through a transparent, multilayered surface, the reflections compound and intensify colors. Peacock feathers and the interiors of pearl oysters are examples of naturally occurring iridescence, but the phenomenon is most pronounced in butterflies.

Jacobs says that this fall at least one manufacturer, which he declined to name, will ship e-readers using Mirasol displays. The timing could be fortuitous. Yankee Group forecasts sales of e-readers to more than triple, to 19 million, by 2013. **Dell, HTC,** and other companies have announced plans to introduce full-color devices later this year to grab a piece of that market. Amazon declined to comment on its plans.

So far Mirasol displays come only in a 5.7-inch version. That's bigger than an iPhone but smaller than an iPad or Kindle DX, both of which are 9.7 inches. Qualcomm's year-old factory in Taiwan cannot yet handle larger sizes.

Mirasol screens may be a good fit for devices targeted at customers who don't want to pay the $499 price tag for the entry-level iPad but want more than what the monochrome Kindle can offer. "If you just want to read books and get occasional multimedia," says J. Gerry Purdy of researcher MobileTrax, "Mirasol is going to be in the hunt as the best display technology." **B** *—Cliff Edwards*

Venture Capital

A Russian Star Rises in Silicon Valley

- **Yuri Milner's DST has quietly acquired 10% of Facebook**
- **Zynga CEO Pincus calls the financier "a trusted adviser"**

Yuri Milner keeps a telescope in his office on the 57th floor of Moscow's Nabarezhnaya Tower to check out what's happening across the city. Judging by his investment portfolio, you'd think it was trained on Silicon Valley instead. In recent years the 48-year-old Russian's company, Digital Sky Technologies, has amassed a $1 billion-plus portfolio that includes stakes in Facebook and game developer Zynga. With another $1 billion ready to invest, there's almost certainly more to come.

Milner's aim is to buy into top Internet ventures worldwide—with an eye toward an eventual public offering of his company's shares. Goldman Sachs, fund manager Tiger Global, and Russian oligarch Alisher Usmanov have all invested in five-year-old DST. On Apr. 12, Chinese Internet services provider Tencent bought about 10% of the company for $300 million.

Since paying $200 million for 2% of Facebook last May, Milner has increased that stake to nearly 10%—worth perhaps $2 billion—by purchasing shares from early employees, according to two people familiar with the social network's ownership. On Apr. 19, DST took the majority of a $135 million financing round for Groupon, a Chicago-based site offering coupons for restaurants and museums. In December, DST was the biggest


In his Moscow office: Milner sets his sights on promising Web 2.0 startups for his Digital Sky Technologies

investor in a group that plowed $180 million into Zynga. Milner "is a trusted adviser," says Zynga CEO Mark Pincus, who says the Russian visits every month "to give input, but it's a soft touch."

On Apr. 28, DST paid $188 million for AOL's instant-messenger service ICQ, the leader in that business in Russia and elsewhere in Eastern Europe. And with high-profile investor Jim Breyer of venture capital firm Accel Partners, Milner is discussing the possibility of an investment in Russian video-chat service Chatroulette. "Yuri has an understanding of how social applications will evolve globally," says Breyer, who introduced Milner to managers at Groupon. "I'd like to see us work together even more deeply."

Milner's bare-bones staff of 20 includes seven analysts, all veterans of Goldman Sachs, Morgan Stanley, or Citibank. They follow his lead in dress: suits, no ties. As for decor, the office has little more than PC screens and digital photo frames "to avoid distractions," Milner says. The analysts keep tabs on some 50 Internet properties on Milner's list of potential investments. "I follow a company for one, two, three years" before buying, he says.

Prior to pouring big money into major names like Facebook, Milner typically buys into smaller Eastern European companies using similar strategies to better understand their business models. Before Facebook, he invested in five other social networking sites including Vkontakte.ru, Russia's largest social network. Milner and the DST team "are walking encyclopedias of Internet business models," says venture capitalist and Facebook board member Marc Andreessen.

Milner spends as much as 75% of his time traveling to meet owners of startups and is often in the U.S. When he's back in Moscow, the 11-hour time difference with Silicon Valley frequently keeps him up late into the night. "I don't know when he sleeps," says his sister, Marina Istomina, a former director of a cultural investment fund at the World Bank. "Maybe he sleeps in the background, like a computer, while still plugged in."

Milner got his start as a theoretical physicist in Moscow before deciding he couldn't live on the equivalent of $5 a month. He worked as a taxi driver, then launched a business selling IBM PCs out of the back of his father's Zhiguli sedan. In 1990 he won a scholarship to the University of Pennsylvania's Wharton School. Soon after getting his MBA in 1992, he returned home and eventually led Russia's first hostile takeover, of Moscow confectioner Red October. Later he took over troubled portal Mail.ru and turned it into the leading Russian-language Web site.

Milner says he invests for the "very long term," comparing his style with that of Warren Buffett. Given that time frame, he hasn't yet seen any of his big holdings go public, so it's hard to say just how successful he is. But thanks to cash flow from sites like Mail.ru and Vkontakte.ru, says Milner, Digital Sky is "overall very profitable." —*Olga Kharif*

The bottom line *Milner has become a major backer of Web 2.0 startups and has another $1 billion to spend on new investments.*

Digital Media

Are Sportswriters Really Necessary?

- Narrative Science's software takes sports stats and spits out articles
- It's "less expensive" than beat reporters, says a customer

Below are the opening lines of three stories written about a recent college baseball game. Two are from schools' sports information departments. The other was produced by software that takes box scores and spits out news articles. Which one was done by machine?

a) "The University of Michigan baseball team used a four-run fifth inning to salvage the final game in its three-game weekend series with Iowa, winning 7-5 on Saturday afternoon (April 24) at the Wilpon Baseball Complex, home of historic Ray Fisher Stadium."

b) "Michigan held off Iowa for a 7-5 win on Saturday. The Hawkeyes (16-21) were unable to overcome a four-run sixth inning deficit. The Hawkeyes clawed back in the eighth inning, putting up one run."

c) "The Iowa baseball team dropped the finale of a three-game series, 7-5, to Michigan Saturday afternoon. Despite the loss, Iowa won the series having picked up two wins in the twinbill at Ray Fisher Stadium Friday."

The correct answer: **b)**. It was composed by the computers of **Nar-**

Tweeted

"Twitter is about to announce a new pay model. For 25 bucks a month, you never hear from Ashton Kutcher again."
—Denis Leary, Apr. 26, his first day on Twitter. Kutcher is the No. 1 tweeter, with 4.8 million followers



(LEFT) QUALCOMM MEMS TECHNOLOGIES; ILLUSTRATION BY JAMESON SIMPSON; (TOP) PHOTOGRAPH BY JAMES HILL FOR BLOOMBERG BUSINESSWEEK; (RIGHT) ASSUTONPHOTO/MEET THE FAMOUS

Technology

rative Science, a five-month-old company in Evanston, Ill., that specializes in "machine-generated content." "There's no human author and no human editing," says Stuart Frankel, 44, the company's CEO and a former executive at DoubleClick. "But the stories sound really good." Narrative Science licenses the software from Northwestern University, where a team of computer science and journalism professors developed the technology. (The professors' name for the project: "Stats Monkey.")

Frankel says his company has three customers. One is the **Big Ten Network**, a joint venture between the collegiate athletic conference and **Fox Cable**, which began using the service for baseball and softball coverage on its Web site this spring. "It's considerably less expensive for us to go this route than for us to try to have our own beat reporters at each one of these games," says Michael Calderon, Big Ten's director of new media. "In fact, it would be logistically impossible for us to do that." After a game, scorekeepers e-mail game data to Narrative Science, which feeds it into a computer. A story can appear online in minutes.

Frankel and the Big Ten Network won't say how much Narrative Science charges. The company says it is continually trying to make the system "a less bad writer," as Kristian Hammond, a Northwestern computer scientist and his partner in Narrative Science, puts it. Adds Frankel: "The 1,000th story of a subject is materially better than the first."

3

Number of seconds needed for Narrative Science software to convert box scores into a sports article

Frankel says his service can render stories about crime stats, medical study results, surveys, financial announcements, or any other data-intensive subject matter. Hammond says the company is starting with athletics because only about 1% of U.S. sporting events are covered by reporters. Next year it plans to approach Little League about using the service. It's "certainly something I think we would consider," says Little League spokesman Steve Barr. "It sounds pretty innovative."
—Justin Bachman, human

The bottom line *Narrative Science can make some writing by humans obsolete. After tackling sports, it will move on to medical, financial, and survey data.*

Innovator

Omar Hamoui



Hamoui created a way for advertisers to place targeted ads on mobile Web sites to reach the growing legion of smartphone users worldwide

Two of the biggest tech innovations of the past 10 years are Net-connected smartphones and Google's technology for delivering relevant ads alongside Web search results. It took Omar Hamoui, who founded an ad network called AdMob in early 2006, to meld those worlds into a new industry: advertising on mobile devices.

Companies use AdMob to place ads on Web sites appearing on mobile phones and in applications downloaded by users of the Apple iPhone and Google's Android devices. Since its launch, AdMob has placed nearly 200 billion ads in this fast-developing market. Today, the mobile-phone ad market represents only $1 billion of the $60 billion spent on online advertising, but analysts expect mobile ads to become a $10 billion business by 2014.

This explains why Google and Apple got into a bidding war over AdMob last year. It ended with Hamoui accepting Google's $750 million offer. (On Apr. 9, Apple unveiled its own new mobile advertising system, called iAd.) AdMob operates out of an office above a restaurant in San Mateo, Calif. It had revenues of about $60 million when it was acquired, according to two people familiar with the company's finances.

The idea to launch AdMob came to Hamoui back in 2005, when he was a first-year MBA student at University of Pennsylvania's Wharton School and wanted to build traffic for his fledgling company that made photo-sharing software for cell phones. He tried marketing the service with search ads on Google, but found it cost way too much. There was no easy way to target potential customers by advertising directly on cell phones. When he finally found a company that made smartphone apps willing to display his ads on their software, he was shocked to find it cost him only 10¢ for every paying customer he attracted, compared with $30 when using Google.

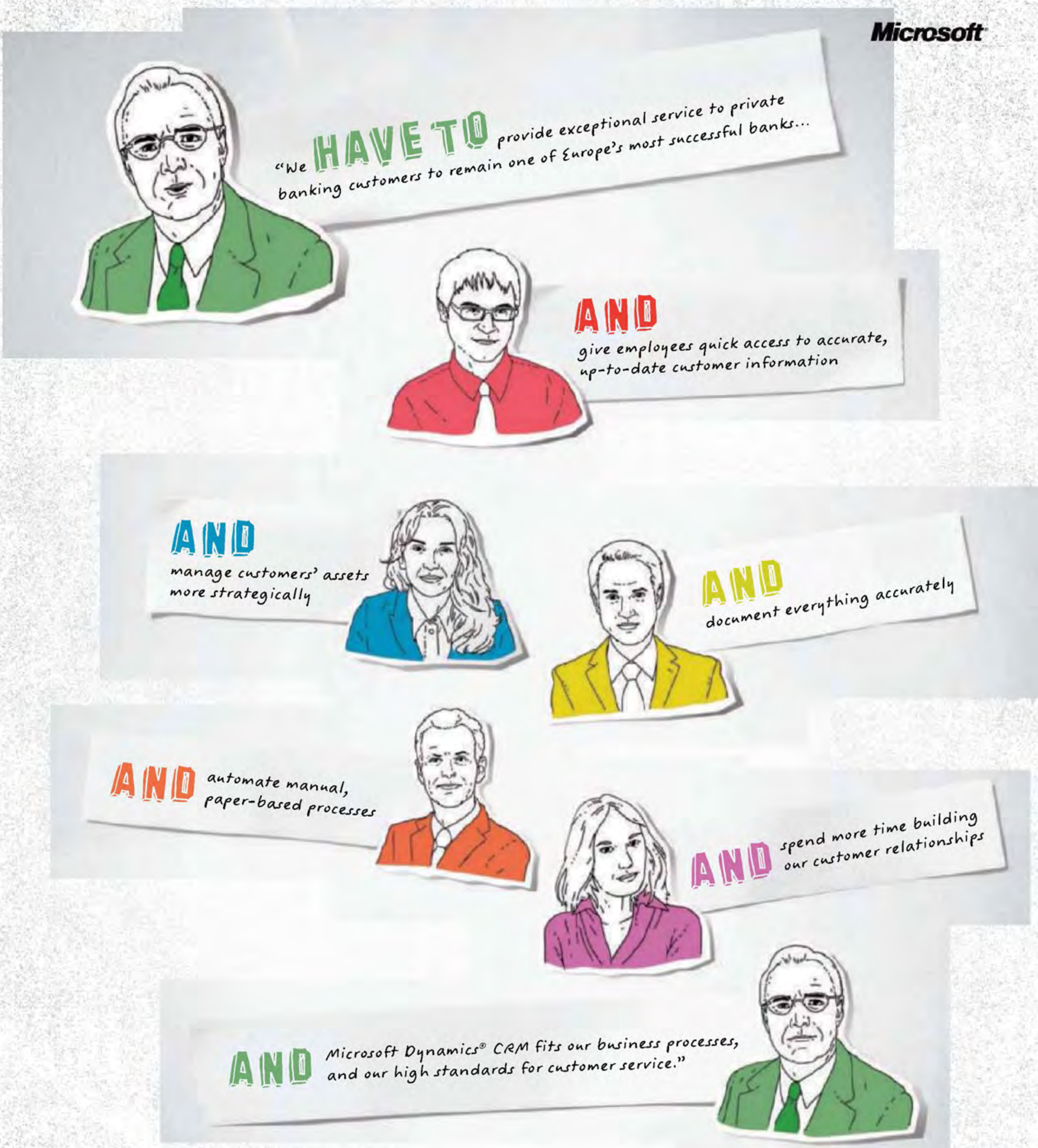
"We happened to be talking about inefficient markets in one of my finance classes–about how there's lots of money to be made when buyers can't find what they need, and sellers can't sell what they have at the right price," he says. So he scrapped his earlier company and set to writing the code for an e-marketplace where advertisers could create and distribute ads just for mobile-phone owners. AdMob enjoyed near-instant success. Advertising clients, which now include Ford, Coca-Cola, and Paramount Pictures, were thrilled by the ability to target well-off smartphone users. Google bought AdMob to expand its online ad empire to mobile devices–a prospect that has the Federal Trade Commission weighing whether to block the deal. Regardless, Homoui sees huge growth ahead. "In 10 years," he predicts, "mobile advertising will be bigger than online advertising." *—Peter Burrows*

Impact ▶ Launched an ad network that's powering growth of the mobile Web

Gutsy Move ▶ Turning down a buyout offer from techdom deity Steve Jobs

Education ▶ MBA from the Wharton School; UCLA computer science degree

PHOTO BY TIMOTHY ARCHIBALD FOR BLOOMBERG BUSINESSWEEK



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The Small Investor Sits This One Out

$7.8 trillion
Total of household deposits in bank accounts and money market funds, according to the latest Federal Reserve survey



ILLUSTRATION BY PETER ARKLE

▶ **Despite a sustained surge, many individuals are staying on the market's sidelines**

▶ **"You don't suddenly get euphoria after losing half of your money twice in a decade"**

Small investors have loved and lost. And lost again. They fell in love with the New Economy, only to see their tech stocks implode. Those who stuck with the market or piled in again had to wait until 2006 just to revisit the old high. Then they got their hearts broken in 2009 when credit markets froze and the Dow Jones industrial average plunged to a level that, in inflation-adjusted terms, was last seen when LBJ was President.

Now the market is beckoning again. Since its low of 6547 on Mar. 9, 2009, the Dow is up 69%—one of the biggest and fastest surges in history. The conditions for renewed romance between stocks and the individual investor seem ideal: Markets are hot, people have money to spend, and competing choices like certificates of deposit and money-market accounts pay next to nothing.

But so far small investors are resisting the market's call. "The individual investor has been twice bitten, 77 times shy," says Tobias Levkovich, **Citigroup's** chief U.S. equity strategist. "You don't suddenly get euphoria after losing half of your money twice in a decade." Already, finance academics are using the almost Freudian term "equity abandonment" to describe the popular aversion to stocks. Long-term, that stance could mean less money available for retirement, education, and home purchases.

According to the Investment Company Institute, since last year's market bottom investors have pulled $24.6 billion out of mutual funds focusing on U.S. equities; over the same

period, they've channeled $455.6 billion into bond funds.

The preference for bond funds is especially striking because with the Federal Reserve keeping rates low to encourage economic growth, yields on almost all low-risk fixed-income investments are negligible. Ten-year Treasury notes yield just 3.77%; three-month bills offer 0.16%. And bank accounts offer close to zero—**Bankrate.com's** national average rate for a one-year CD clocks in at 0.71%. Factor in taxes and inflation—now running at 2.4% a year—and you're losing money on cash in the bank. Normally, such yields encourage a shift to stocks. "Fed Chairman Ben Bernanke is in fact begging us to speculate," says Jeremy Grantham, chief investment strategist of Boston money-management firm **GMO.** But many investors are ignoring him.

Bill Schmick, a portfolio manager with **Berkshire Money Management,** a $250 million shop in Pittsfield, Mass., reports that clients who come in with longer-term 3% and 4% certificates of deposit that are maturing are "shocked at how hard it is to secure just a percentage point" in today's money markets. Yet they remain wedded to an "anything but stocks" mentality. "People have gotten hit real bad and watched their investment houses get bailed out—or worse—and then interrogated on Capitol Hill," he says. "So you gonna listen to your broker?"

And it's not as if no one has any money. The Fed says households have $7.8 trillion in bank accounts and money funds. That's almost a record high in relation to disposable personal income, according to **Wells Capital Management.** "Retail investors have massive dry powder and remain woefully underexposed to risk assets," says James W. Paulsen, the firm's chief investment strategist.

In recent downturns, the discipline of automatic investment through company-sponsored retirement plans has kept individual investors in the market. That, too, can no longer be taken for granted. A study by the Profit Sharing/401k Council found that 15% of the companies it surveyed had suspended their matches in 2008 and 2009, with an additional 4% reducing their matches. While many of these companies say that they plan to restore benefits by midyear, the cost of missing last year's rally is already huge.

Investors who want to get back in now face the quandary of market timing: Buy now and risk a painful pullback after the big move upward; wait too long and the market can keep running away.

Does the small investor's current wariness of stocks signal a lasting change in behavior? Some market watchers worry that a whole generation of equity investors has checked out. Remember, though, that reports of the small investor's demise have turned out to be greatly exaggerated time and again. Eventually, the jaded retail investor will have to pile back in to make up for lost time.

Of course, professionals draw contrarian comfort from small investors' lack of enthusiasm; it means there's plenty of cash to keep the rally going. Wrote Jason Trennert, chief investment strategist at **Strategas Research Partners,** in a hopeful note to his clients: "We see the paucity of flows into equity funds as some indication that a significant market constituency—the retail investor—has yet to fully embrace the current bull market." After all, Trennert says, the market is merely back to a level first crossed in 1999.

—*Roben Farzad*

The bottom line *Small investors who have suffered big stock market losses are avoiding the market, possibly to their own detriment.*

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Bailouts

The Importance of Being John Thain

- CIT's stock and bonds have rallied since he took the helm
- "He's the right guy at the right place at the right time"

On Main Street, John Thain may be known for spending $1.2 million to redecorate his office at Merrill Lynch. On Wall Street, he is known for making money for shareholders, and that reputation is lifting the stock of **CIT Group,** the fi-



20%
Gain for CIT shares in the four weeks after Thain joined

A rich payday for Peanuts page 46 ▶



nancial services firm that emerged from bankruptcy in December. In the four weeks following Thain's hiring as CEO on Feb. 7, CIT shares rose nearly 20%–three times as much as the market–and CIT bonds rallied as well.

Thain has announced no splashy hires or bold initiatives. Apparently, investors have so much faith in him that his decision to sign up was enough to boost the stock. "There has to be potential for the operating environment to improve," says Sameer Gokhale, an analyst at Keefe, Bruyette & Woods. "Otherwise, why would he take the position?"

Thain, 54, went to **Merrill** in 2007 from the New York Stock Exchange where, as CEO, he turned the clubby organization into a modern, international public company now known as **NYSE Euronext**. Before that he was chief operating officer at **Goldman Sachs**, where he worked for 24 years. "He's the right guy at the right place at the right time," says Bruce Berkowitz, founder of **Fairholme Capital Management**, CIT's biggest shareholder with 7.2% of the stock. "He will reshape the entire organization, which has been cleansed by Chapter 11." CIT, with $58 billion in assets, lends to small businesses, leases airplanes, and acts as a "factor"–which means, among other things, helping suppliers collect money from retailers, particularly in the garment industry.

Berkowitz is one of many on Wall Street who have forgiven Thain for the lavish spending on his office at Merrill when the giant brokerage was losing billions on securities tied to subprime mortgages. Fact is, Thain may have benefited Merrill shareholders when he negotiated the firm's sale to **Bank of America** the weekend Lehman Brothers failed and wiped out its stockholders. "Shareholders will gladly take bad press over what they would have gotten had he not sold the company," says Matthew Schultheis, an analyst at Boenning & Scattergood.

Investors remained confident on Apr. 27 after Thain issued CIT's first post-bankruptcy financial results and reported net income of $97 million. Although much of the profit stemmed from accounting adjustments related to the company's bankruptcy, the shares closed at 39.98, near their post-bankruptcy high.

As ugly as CIT's bankruptcy was–$2.3 billion of government bailout money vaporized–it left Thain with a cushion against failure by eliminating $10.4 billion of company debt and pushing out significant repayment deadlines to 2013. "They bought themselves a couple of years," says Schultheis.

Ultimately, Thain must change CIT or sell it. Right now, CIT pays nearly as much to borrow money as it makes by lending it out. CIT's average cost of funds is nearly 6.5%, while its loans and leases earn less than 7.5%. Banks that CIT competes against pay much less for their money. **Wells Fargo**, for example, pays less than 1%.

Thain's strategy is to make CIT a full-scale bank that takes in enough low-cost deposits to fund its lending profitably. CIT has a subsidiary bank but remains under orders from regulators to not take in more than $5.5 billion of certain deposits without their approval. The firm is already up against the limit. Thain began calling on bank regulators as soon as he took the job and continues to do so today. He has said it will be at least next year before regulators lift the deposit limits.

Thain has a lot of work to do: courting regulators, salvaging bad loans, and hiring new executives

In the meantime, Thain has to recruit new senior executives. He hasn't announced any hires because his choices must be approved by the Federal Reserve Bank of New York, Thain told investors in an Apr. 27 conference call. Thain declined to comment for this article.

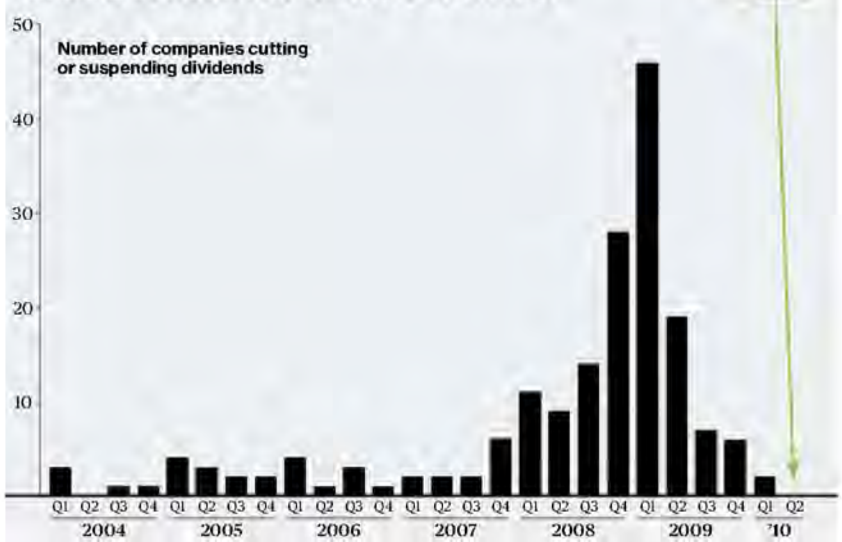
There's also salvage work to be done on what's left of the bad loans CIT made during the boom. CIT is part of creditor groups that have been battling with owners of the bankrupt Philadelphia daily newspapers and the over-leveraged **Texas Rangers** baseball team. And there are assets to be sold, including an ailing portfolio of student loans.

At the same time, better-

Income Stocks

Good News for Yield Hounds

0 companies expected to cut or suspend dividends this quarter



In a sign of economic recovery, no company in the Standard & Poor's 500-companies index is likely to cut or suspend its dividend this quarter–the first time since 2004, when stocks were in Year Two of a 101% rally. The Bloomberg projection is based on criteria including statements from management, options prices, and peer comparisons. —*Whitney Kisling*

DATA: S&P

PHOTO: BRENDAN SMIALOSWKI/THE NEW YORK TIMES/REDUX; ILLUSTRATION: PEANUTS © UFS INC.

Why these buildings won't be built page 60 ►



financed competitors are moving in on CIT's turf. In March, Wells Fargo bought the factoring unit of **GMAC**, positioning it to snag some of CIT's most profitable business. Thain can't spend much to counter such moves: He needs cash to pay down debt and to satisfy regulators. "We're being quite cautious about managing our liquidity," he said on the conference call. "I think that's prudent, given that liquidity is how financial institutions generally get into trouble." —*David Henry*

The bottom line *Thain's hiring lifted CIT stock. But to survive, the firm needs a fundamental overhaul to lower its borrowing costs.*

Private Equity

Carlyle Goes Local To Conquer China

- The big buyout firm joins forces with a Shanghai conglomerate
- "In order to play, you have to have a renminbi fund"

Carlyle Group is renewing its push into China, taking advantage of new rules that make it easier for foreign private equity funds to operate on the mainland. The Washington-based private equity giant, with $89 billion in assets under management worldwide, has teamed up with **Fosun,** a Shanghai conglomerate, to launch a local-currency fund. Having a Chinese partner will help Carlyle get regulatory approval for deals–and give it access to sectors of the economy that have been largely off limits to overseas investors. On Mar. 3, Carlyle and Fosun received approval to operate a fund worth the equivalent of $100 million in yuan, also known as renminbi. "In order to play, you have to have a renminbi fund," says Wayne Wen-Tsui Tsou, a Carlyle managing director in Hong Kong. Otherwise, "you're shut out of certain deals."

Carlyle knows what that's like. A three-year effort to buy a controlling interest in **Xugong**, a state-owned construction equipment company, collapsed in 2008 because of criticism in China that the Americans were trying to buy a strategic asset on the cheap. Since the flap over the Xugong deal, Carlyle and other Western private equity shops have been confined themselves to making minority investments in companies. Of course, some of these deals can be lucrative. Carlyle showed a paper profit of about $4 billion from the initial public offering in December of China Pacific Insurance, in which it had acquired a 17% interest.

New regulations that went into effect in March allow foreign private equity firms to operate as limited liability partnerships, the structure that most prefer outside the mainland. For Carlyle and others, the change will confer tax advantages as well as legal protections. It should also help crack open sectors like media, insurance, and telecom where foreign participation is subject to government caps. "The Holy Grail for foreign investors has been to adopt a structure where you can be treated as a local," says Joseph W.K. Chan, a partner in Shanghai with the Washington law firm Pillsbury Winthrop Shaw Pittman. **Blackstone Group** already has announced plans to launch a local-currency fund in partnership with the government of the Pudong district in Shanghai, though it has not yet concluded fund-raising.

Carlyle and Blackstone will face intensifying competition from Chinese private equity shops. In 2009 local private equity firms raised $8.7 billion in new money, vs. $4.2 billion for foreign funds focused on China, according to Beijing consultancy Zero2IPO. For the big U.S. private equity players, the rise of a homegrown industry "poses the biggest threat to their traditional business in China they've ever faced," says Michael J. Guilday, a partner in Hong Kong with Boston-based Ropes & Gray.

Carlyle already is canvassing Chinese investors for another local-currency fund. Approval is pending, but managing director X.D. Yang is confident: China's leaders, he says, "want to fully take advantage of private equity." —*Bruce Einhorn*

The bottom line *Having a Chinese partner will allow Carlyle to target companies in new sectors and may help allay concerns about "foreign" takeovers.*

Fixed Income

Where Have All the Bond Vigilantes Gone?

- Governments are borrowing more than ever, yet rates remain low
- Investors see "modest growth and continued declining inflation"

As nations around the globe blow holes in their budgets and flood markets with unprecedented amounts of debt, bond investors have remained surprisingly willing to accept low yields on government bonds. The bond vigilantes who normally punish profligate countries by demanding high returns have been missing in action.

While a few troubled nations like Greece are paying higher rates, sovereign bond yields recently averaged 2.39%, about the same as a year ago and

Scandals

E-crimination

Fabrice Tourre's now infamous e-mail about Goldman joins a long list of electronic messages that became symbols of corporate wrongdoing. —*Cristina Lindblad*

1996

"Do I have to look forward to spending my waning years writing checks to fat people worried about a silly lung problem?"
—An employee at American Home Products, which was sued by users harmed by its diet pills

2001

"I am incredibly nervous that we will implode in a wave of accounting scandals."
—Enron executive Sherron Watkins to Chairman Kenneth Lay



2002

"I used Sandy to get my kids in 92nd St. Y preschool (which is harder than Harvard)..."
—Telecom analyst Jack Grubman explaining to a friend that he upgraded AT&T's stock to win a favor from his boss, Citigroup chief Sandy Weill

2002

"ATHM is such a piece of crap."
—Merrill tech analyst **Henry Blodget,** referring to Excite@Home, a stock he had rated "accumulate"



(TOP) RENDERINGS: COURTESY OF SHELBOURNE DEVELOPMENT/SANTIAGO CALATRAVA; COURTESY OF ZAHA HADID ARCHITECTS; AMD; TIMELINE PHOTOS (LEFT TO RIGHT): BLOOMBERG (4); MICHELE ASSELIN/CORBIS; REUTERS; BLOOMBERG. (OPPOSITE) COMIC: KIPPER WILLIAMS/GUARDIAN NEWS & MEDIA; PHOTO: CHIP SOMODEVILLA/GETTY IMAGES

Drawing Board



below the average of 3.08% in 2008, when the credit crisis led investors to the safety of government bonds, according to **Bank of America Merrill Lynch** index data. The cost to borrow is holding steady even though the amount of bonds in the index has grown to $17.4 trillion, from $13.4 trillion at the start of 2008.

That big debt expansion helped revive the global economy—but hasn't yet generated inflation, which erodes the value of fixed-income securities. Consumer prices (excluding food and energy costs) rose only 1.5% in February from the previous year in the 30 countries that form the Organization for Economic Cooperation & Development, the smallest gain on record.

"Part of what's frustrated bond vigilantes has been that economic data has ratified the notion of modest growth and continued declining inflation," says Wan-Chong Kung, a money manager at FAF Advisors in Minneapolis, the asset-management arm of **U.S. Bancorp**. (The term "bond vigilantes" was coined by economist Edward Yardeni in 1984 to describe investors who sell bonds in response to inflationary monetary or fiscal policies.)

The low rates have taken a big bite out of governments' annual interest payments. In fiscal 2009 ended Sept. 30, the U.S. paid $383.4 billion to service its debt, down from $451.2 billion in the previous year, says the Treasury Dept. Even with rates low, demand for U.S. debt remains robust: On average, the Treasury received $3.21 in bids for each dollar sold at 10-year offerings this year, compared with $2.63 in 2009 and $2.41 from 2004 through 2008, according to Bloomberg data.

A lot of that demand is coming from financial institutions, which are profiting from the difference between the near-zero rates they have to pay to raise cash in the money markets and the higher yields of government bonds. In the U.S., banks owned $1.48 trillion of government securities as of Apr. 7, up from $1.09 trillion two years earlier, Fed data show. Today's easy credit conditions likely will end when investors see signs of inflation. "There's a philosophical battle between those who feel the deflationary forces are very powerful—and I'm in this camp—vs. those who say, 'hey, you're printing tons of money, you've got to have inflation,'" says Barr Segal, a managing director at Los Angeles-based TCW Group. "And they're right, too. The big question is timing."
—*Daniel Kruger*

The bottom line *The combination of moderate economic growth and low inflation means bond buyers will accept low yields on their investments.*



The Bank Crisis

Taxpayers May Get A Piece of the Action



▶ **If bad loans rebound, Sheila Bair's FDIC gets a portion of the profits**

▶ **"It's very hard to lose money on a transaction like that"**

After the savings and loan crisis of the late '80s and early '90s, the government was criticized for unloading assets of failed thrifts at prices that created a bonanza for some of the investors who bought them. Now the Federal Deposit Insurance Corp. and its chairman, Sheila C. Bair, are selling assets of failed banks at deep discounts. And some of the same investors who profited on the S&L loans are buying them. But this time the government is making sure the taxpayer gets to share in any upside.

Instead of selling the loans outright, the FDIC kept stakes of at least 50% in five loan portfolios marketed in the last six months. "They are doing a much better job this time around," says John Bovenzi, the FDIC's chief operating officer until last year, who also helped unwind the S&L crisis. "They have learned a lot."

The FDIC has seized more than 195 banks since the beginning of 2009. The loans that came with those banks are mostly tied to commercial real



2004

Feds charged **Martha Stewart** with obstruction of justice after they discovered she had doctored an e-mail to her broker about her sale of ImClone stock. She later served five months in jail.

2005

Boeing CEO **Harry Stonecipher** steps down after sexually explicit e-mails surfaced revealing his extramarital affair with a subordinate.

2006

HP Chairman **Patricia Dunn** resigns over her role in a spying scandal. The company sent reporters—including several from *BusinessWeek*—e-mails embedded with tracing software.



2010

"The whole building is about to collapse anytime now… Only potential survivor the fabulous Fab"
—**Fabrice Tourre,** the banker at the center of the SEC case against Goldman Sachs, in an e-mail to a girlfriend



estate and residential development. In many cases borrowers have stopped making payments. To make the loans more enticing, the FDIC has offered some buyers zero-percent financing. Without it, says Bair, some of the portfolios "may be so distressed that a healthy bank just does not want to deal with them."

Not everyone is a fan of the agency's approach. Linus Wilson, a finance professor at the University of Louisiana at Lafayette who has written extensively about bailout programs, says the FDIC's zero-percent financing artificially inflates prices by as much as 20% and leaves its insurance fund vulnerable to losses. He doesn't think the FDIC should retain a stake in the loans.

The FDIC is finding plenty of takers. Loan sales planned or completed in 2010 are on pace to reach at least $10 billion in book value by midyear, matching the total for all of 2009. A new sale of FDIC-owned loans with a book value of $1.97 billion is scheduled for June. Starwood Capital Group, Colony Capital, and TPG are among the firms snapping up the offerings. Using the FDIC financing for part of the purchase price, they are laying out as little as 22¢ on the dollar in cash for the portion of the loan packages they buy.

Still, this is not a giveaway. Starwood CEO Barry Sternlicht, 49, oversaw a fund that bought assets from the Resolution Trust Corp., the government agency that disposed of $394 billion of assets from 747 failed lenders in the 1990s. That fund earned a roughly 94% return, he said in a private February call with potential investors.

This time when Starwood and its partners bought a stake in a $4.5 billion portfolio of unpaid loans in October of last year, the FDIC added an "equity kicker." From the outset, the agency is entitled to 60% of any profits on the loans. Once the Starwood-led group makes back twice its initial investment and earns a 25% rate of return, the agency's share of the gains jumps to 70%. Even so, Sternlicht is delighted to do business with the FDIC. During the February call he said: "It's very hard to lose money on a transaction like that."

—*Jonathan Keehner and Phil Mattingly*

***The bottom line** Buying bad loans paid off for bold investors after the S&L crisis. This time, taxpayers will share in the upside.*

Bid & Ask

Collectibles

$1mn



Estimated value of European stamps being put up for auction by Pimco's Bill Gross, manager of the world's biggest bond fund and avid philatelist. Proceeds will benefit the charity Doctors Without Borders.

Banking

Countrywide Financial settled a class action for more than **$600 million**. The suit alleged that management at Countrywide, now part of Bank of America, concealed that the lender allowed its underwriting standards to deteriorate.

Travel

Rental-car company Dollar Thrifty Automotive agreed to sell itself to rival Hertz Global holdings for **$1.27 billion** in cash and stock.

Sports

The Philadelphia Phillies signed first baseman Ryan Howard to a five-year contract extension worth **$125 million.**





PEANUTS © UFS, Inc

Licensing

Iconix Brand Group and the family of cartoonist Charles Schultz paid United Features Syndicate **$175 million** for the rights to the *Peanuts* comic-strip characters. (For the record, Lucy thinks she's worth more than that.)

$10bn

Telecom

Phone company CenturyTel is paying about **$10 billion** for Qwest Communications. The deal, the year's third largest, will more than double CenturyTel's customer base and raise annual sales to almost $20 billion.

Real Estate

Jamie Dimon, chairman and CEO of JPMorgan Chase, knocked $1 million off the asking price for his Chicago mansion, now listed for **$9.5 million**. The 15,000-sq. ft. home has been on the market for four years.



Entertainment

$305k

Value of a painting that graffiti artist Banksy gave the London band formerly known as Exit Through the Gift Shop, according to British newspaper reports. The band agreed to change its name, which happened to be the title of Banksy's recently released film.



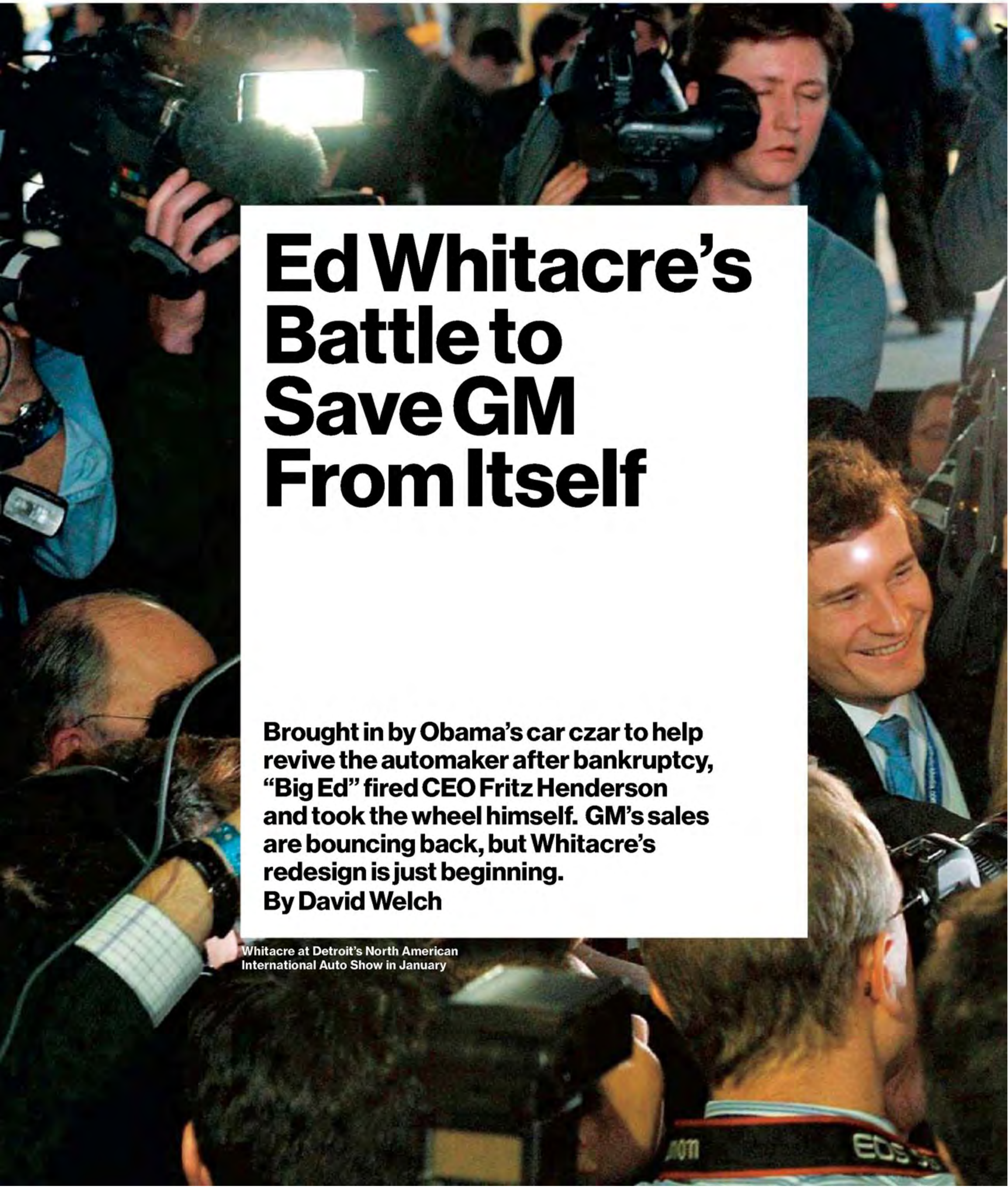


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Ed Whitacre's Battle to Save GM From Itself

Brought in by Obama's car czar to help revive the automaker after bankruptcy, "Big Ed" fired CEO Fritz Henderson and took the wheel himself. GM's sales are bouncing back, but Whitacre's redesign is just beginning.

By David Welch

Whitacre at Detroit's North American International Auto Show in January


MICHIGAN RADIO
NEWS

The 15 General Motors dealers who flew to Detroit last September for a dinner with GM management were not an easily rattled bunch. They had endured the worst auto sales slide in 25 years, as well as the bankruptcy of the iconic carmaker on which they had built their businesses. Only three months had passed since GM accepted a $50 billion federal bailout, announcing the retirement of four of its eight brands and the shutting down of 1,900 dealers—a third of its domestic retail network. These dealers were the survivors, some of the more prosperous people in their towns, and they wanted a little reassurance.

CEO Fritz Henderson gathered the group in a private conference room at the Westin Detroit Metro Airport and tried to demonstrate that he had a plan, according to an executive in the room who asked not to be named because he was not authorized to describe the dinner. Henderson announced that GM was going on the offensive with better models, new marketing, and a plan to remake its sclerotic corporate culture. Then he introduced the other GM boss in the room, the one the government had sent to keep an eye on the company.

Edward E. Whitacre Jr., a laconic, squinty-eyed, six-foot-four-inch Texan, had been GM's nonexecutive chairman for barely two months. He was typically blunt. "We're going to get this turned around," Whitacre promised. And if current leadership can't fix the company, he said, "we'll find someone who can." To Duane Paddock, a dealer in Buffalo whose family has been selling Chevys for 75 years, Whitacre's words weren't menacing, just matter-of-fact. He liked hearing that Whitacre would find a way to win. "We knew the world was going to change," says Paddock, one of Chevy's largest retailers and often the top seller in New York State. "We knew the personnel would change. But you don't know who will be left."

Not Henderson, as it turns out. Whitacre and the board fired him on Dec. 1, ending his tryout on day 143. The board, reconstituted in July with Whitacre and seven other new members joining five from the old guard, had been skeptical that Henderson, a GM lifer, was radical enough to change the company. Whitacre—the former telecom executive who turned a broken Baby Bell into the resurgent AT&T—decided he was the man to fix GM. "Fritz was moving to change things," says an executive with direct knowledge of the decision who was not authorized to speak about it. "But a lot more needed to be done."

Ed Whitacre, 68, wasn't looking to live in Detroit. He has made his home San Antonio for many years—his office there is crowded with statues of cowboys, cattle, and horses—and is involved in the vital affairs of his home state; he helped his alma mater, Texas Tech University, hire Bobby Knight as its basketball coach. His wife, Linda, stays mostly in Texas, but Whitacre took an apartment in downtown Detroit and got to work.

Within three months of Henderson's ouster, he had eased out four other executives, reassigned 20 more, and brought in seven outsiders to fill top jobs—a shock to an insular company that had long been famous for paving over failure while compensating it handsomely. The tide also swept out solid performers allied with the old regime, such as Vice-Chairman Bob Lutz, who had overseen the development of the Chevy Malibu, the Cadillac CTS, and eight other vehicles that were beginning to sell well. Lutz was marginalized by Whitacre and announced his retirement, effective May 1. "In the past," says Lutz, "GM was accused of not enough change. You have to find the balance between the pace of change and trauma to the organization."

People close to Whitacre say he would rather cope with trauma than accept the status quo at a company that lost $84.3 million a day in 2008. Three days after taking over, he reorganized sales and marketing, and then, after just three months, let his deputy reorganize the departments again—a restructuring of the restructuring that caused middle managers to fear for their jobs and even question whether Whitacre had the right disposition for his. Some say that fear has made them more cautious when Whitacre wants them to take more risk.

Whitacre isn't big on deliberation—or on talking to the press. He refused several requests to comment for this story, though GM did provide access to dozens of employees—from Whitacre's fellow executives to assembly workers. Although some refused to speak on the record, their comments create a detailed portrait of a corporate culture in flux. "Ed's view is that the business is more complicated than it needs to be," says Vice-Chairman Stephen Girsky, a former Wall Street auto analyst who has become Whitacre's right-hand man.

Former CEO Rick Wagoner, who lost $88 billion between 2005 and 2009, used a dozen metrics to evaluate his execu-

Whitacre's Five-Point Turn

The new CEO has made five big moves to help reverse the company's fortunes.

The Great Reshuffle. Whitacre has fired or eased out five high-level people. He has brought in seven outsiders and reassigned another 20 managers.

The Big Sell. Whitacre prefers simple ads that focus on the cars, with endorsements from consumer and auto magazines.

Euro Reversal. Henderson agreed to sell Opel to Canadian partsmaker Magna International; Whitacre and the board overturned his decision. Whitacre didn't want to lose Opel's passenger car engineering or 1.1 million cars a year in sales.

The Off-Ramp. Whitacre sold Saab and killed Hummer, finishing a brand purge started by Henderson last year.

Settling Debts and Going Public. Whitacre vowed to pay $8.4 billion that GM owed to the U.S. and Canada by the end of June—and had it paid back in April. Executives say he'll take the company public again by early next year.



tives. Whitacre, who holds just one meeting per week with his 13-member management team, has boiled it down to six: market share, revenue, operating profit, cash flow, quality, and customer satisfaction. He wants nimble managers who decide fast and correct mistakes faster. Vice-Chairman and CFO Christopher P. Liddell, who arrived from Microsoft in January, recently remarked that 12 of GM's 13-person executive committee are either auto industry rookies or new to their jobs. (The two men at the top, Whitacre and Liddell, are the car company rookies.) The two people tasked with remaking GM's image with consumers, North America President Mark L. Reuss and Marketing Vice-President Susan Docherty, are in their 40s and taking on massive responsibility for the first time in their careers. "He realizes that the biggest change GM needs is cultural," says Jim Kahan, who was senior vice-president for corporate strategy under Whitacre at AT&T. "It was always blaming the union, the government, or the economy." Says Reuss: "What we were doing didn't work. The time of providing for everybody, no matter what their performance, is gone."

By all accounts, Whitacre is a tough guy, but his job is easier than Wagoner's was. GM's restructuring wiped out a mountain of debt—from $46 billion before the bankruptcy filing to $17 billion after, saving $1 billion a year in interest payments. GM's 2007 deal with the UAW set up a trust fund to pay for retiree health care, saving $3 billion a year. Add $6.7 billion in savings from chopping brands and cutting plants and staff during bankruptcy, and Whitacre's annual costs base is $10.7 billion lower than Wagoner's. Now Whitacre is rushing to take the company public and recoup most or all of the Treasury Dept.'s $40 billion equity stake in GM. On Apr. 21, Whitacre announced that GM had finished paying off $8.4 billion to the governments of the U.S., Canada, and Ontario five years ahead of schedule. (To do it, he used dollars from the Treasury Dept.'s purchase of GM stock.) The U.S. still owns $2 billion in preferred shares, which GM will buy back, and 61% of the company. Canada owns 11.7%, while the United Auto Workers' retiree health-care fund holds 17.5%, and bondholders 10%. The IPO, possible by yearend according to a GM executive familiar with the plan who asked not to be named, needs to raise roughly $80 billion for these parties to break even. JPMorgan Chase analyst Eric Selle estimates GM's current valuation at $68.6 billion—more than the company has ever been worth. With 500 million shares outstanding, that's an equity price of $137 per share. Selle says that's not far-fetched. Whitacre's early payment of the government loans, he says, "shows GM's confidence in a recovery."

GM's $3.4 billion fourth-quarter loss masks real progress. It had one-time costs totaling $3.1 billion, meaning that—thanks to Henderson's restructuring and some hot models designed under Lutz—it was within $300 million of breaking even despite North American sales that fell 24% in the quarter. With sales up 18.4% so far this year, even

PHOTOGRAPH BY DANIEL MEARS/DETROIT NEWS (PREVIOUS PAGE); GM; (MALIBU) BRENDA PRIDDY & CO.



Meeting with top UAW Local 598 officials in December

though Hummer, Pontiac, Saab, and Saturn have been sold or closed, Whitacre and Liddell have both hinted about a return to profitability in 2010.

Henderson showed a sure hand during bankruptcy proceedings but never had much more than a 50/50 chance of holding on to the CEO job. When New York financier Steven Rattner, the head of President Obama's Auto Task Force, fired Wagoner on Mar. 29 and named Henderson as CEO, the new chief scrambled to avoid being tagged as an interim boss, arguing that he would have no authority if labeled a temp. He got his way, but knew the GM board would select its own chief executive unless his moves blew them away. Whitacre was recruited for the chairman role two years after retiring from AT&T specifically because he had been the leader of a large, consumer-focused, highly regulated company. At first, Rattner says, he only knew Whitacre by reputation as a "strong, no-nonsense guy who is tough and fierce and wants to win. As I got to know him, he was all of those things and a nice guy as well. He is also a man of few words. He believes that we were born with one mouth and two eyes and should use them in that proportion."

The new board's first meeting was in September 2009, the month Henderson decided to sell 55% of the Opel unit, which produces 1.1 million small and midsize cars a year in Europe, to Canadian partsmaker Magna International and Sberbank, Russia's largest bank, for $750 million. Before the sale closed, three directors with backgrounds in private equity—Girsky, Texas Pacific Group co-founder David Bonderman, and Carlyle Group Managing Director Daniel Akerson—decided it was a terrible deal for GM. They also argued, and Whitacre agreed, that keeping Opel was essential to GM's compact and midsize car engineering and sales volume. When the board reversed the Opel decision at its November meeting, it was the beginning of the end for Henderson. On Nov. 10, Whitacre told Bloomberg News that "the board is fully behind Fritz; he's working hard." Three weeks later, he told Henderson he was done.

With Whitacre as interim chief, the board looked at other CEO candidates, hiring headhunter Spencer Stuart. There were few with industrial backgrounds who were willing to consider the job, so the board looked to Whitacre. Aside from him, three board members had backgrounds in telecom. Akerson was CEO of Nextel; Carol Stephenson was CEO of Lucent Technologies Canada; and Patricia Russo was CEO of Alcatel-Lucent. They had seen what he could do. The vote was unanimous.

When Whitacre became chairman and CEO of Southwestern Bell in 1990 after 26 years at the company, it was as anonymous as a $20-billion-a-year telecom can be. An engineer by training, Whitacre had worked his way up by showing strong results in the company's Kansas operation, later serving in regulatory affairs and finance before getting the top job. Then he set out to make the company matter. Between 1995 and 2006 he spent $200 billion acquiring eight telecom rivals, bolting them together atop Southwestern (one of the seven Baby Bells created when the government broke up the old AT&T) into a new behemoth called SBC Communications.

Building his telecom turned Whitacre into an accomplished dealmaker and frontman. In May 1999, he spent $61 billion to

With Ameritech Chairman Richard Notebaert in 1999, after their $61 billion merger



acquire Chicago-based Ameritech, one of the most troubled Baby Bells. The company had neglected its phone lines and network to save money, the service had deteriorated, and shortly after the acquisition, the public utility commissions of Illinois, Ohio, Indiana, Michigan, and Wisconsin summoned Whitacre to explain why Ameritech was so unreliable. "It's my responsibility to fix it, and I'll fix it," he told the panel. Whitacre spent billions on upgrades over the next two years.

Whitacre's signature move was his February 2004 purchase of AT&T Wireless. (He was running the deal for Cingular Wireless, which was jointly owned by SBC and Bell South.) He had been increasing his offer in 25¢-per-share increments when AT&T Wireless went silent for five hours. Whitacre got a call at 11 p.m. that night from a deputy, Jim Kahan, who thought they'd lost the bidding war to Vodaphone. Whitacre told Kahan to increase the bid by a full dollar, to $15 a share–upping the ante by $2.7 billion to $41 billion–and to warn AT&T Wireless that it had an hour to accept. Whitacre called in his board, and by 1 a.m. they had the company. A year later he bought the rest of the old AT&T–landlines, long-distance service, and AT&T labs. Whitacre boosted ad spending as the reconstituted AT&T competed with Sprint and Verizon for wireless customers. "He believes in the power of advertising and rightfully so," says Lutz. "He drowned them out with his ads." AT&T's Dallas headquarters is now called Whitacre Tower.

Not all of his big telecom moves worked as well. Just before Whitacre retired in 2007, he cut an exclusive deal with Apple to be the sole service provider for the popular iPhone. It was a marketing coup for AT&T, but the company's network lacked the bandwidth to support the iPhone's apps, especially during peak hours in big cities. Now the company is flooded with customer service complaints. "It's painful for Ed to watch this from a distance," says Selim Bingol, GM's new vice-president for communications, who worked with Whitacre at AT&T.

Whitacre wants GM to take big risks, too. After the company launches its Chevrolet Volt electric car in November, it hopes to sell 45,000 globally in 2011, a huge number for a $40,000 compact car that needs to be plugged in at night. Demand for electric cars is unproven; less-expensive hybrids have grabbed only 2% of the total market in a decade. Whitacre told GM staff that he thinks the Volt will be a hit and wants them to boost production. If he's wrong, the Volt (which is already unlikely to make money because of its steep development costs and $8,000 battery) will generate even more red ink.

"I'm sick of Howie Long," Whitacre drawled in a meeting with Lutz early this year. And with those words, Whitacre waded into one of GM's most intractable problems: marketing. Chevy dropped pitchman Long, a football Hall of Famer, in favor of its audacious "May The Best Car Win" campaign comparing its models to rivals. It's the kind of advertising Whitacre likes. At Cadillac, Don Butler, the new vice-president for marketing, cancelled television spots featuring little flying Cadillacs blasting out of a birdhouse that looks like the brand's crest. Butler is now making ads that show more cars and play up car-magazine accolades.

Marketing has been a mess for decades at GM–and Whitacre's accordion-like staffing moves have only added to

Stats GM Sales

The U.S. auto market is up 17% in 2010, and GM sales are up 18.4% overall—even though it has four fewer brands

Buick

+59%

On the strength of just three models, Buick sold 32,136 cars by Mar. 31 of this year.

Chevrolet

+39%

Chevys still dominate in terms of volume: 337,785 sold in the first quarter.

GMC

+32%

The division sold 68,619 vehicles, in part on the strength of its popular new Terrain SUV.

Cadillac

+25%

GM sold 29,352 Caddies in Q1. Whitacre sees room for improvement.

PHOTOGRAPHS BY TOM WICKHAM/GM (TOP); SCOTT OLSON/REUTERS/CORBIS

the churn. Cadillac has had three marketing managers in a year. Buick has had four since last June. Chevy, which accounts for almost 70% of GM's U.S. sales, has had three in a year.

In Whitacre's first months on the job he merged marketing and sales—easing out the 78-year-old Lutz, putting Susan Docherty, 47, in charge of both, and handing the North American organization to Reuss. It took Reuss three months to conclude Whitacre's new structure was a flop. Docherty, a stylish hard-charger who raced up GM's ranks while working for Hummer and GMC trucks, often told her staff that the new GM would demand long hours. If anyone didn't like it, they should go, she told *BusinessWeek* last year. Yet the job proved too much even for her. After several meetings with Whitacre, Reuss split sales and marketing again on Mar. 2. Docherty went from head of sales to vice-president for marketing. Reuss also shook up staff at the four brands. "Ed didn't make these changes. I did," he says. "People in the company said outsiders would say we don't know what we're doing. Ed backed me."

Whitacre realized that all of the change had rattled the workforce, so on Mar. 31 he sent a companywide e-mail, obtained by *Bloomberg Businessweek*. "A smart company changes and adapts to the needs of the business. So, while there will always be individual moves within GM, I want to reassure you that the major leadership changes are behind us."

It will take more than e-mails to prove GM is stable. Few believed Whitacre's letter, says a senior GM product developer who requested anonymity because he doesn't want to anger the boss. Everyone is on pins and needles, he says.

From here, Whitacre will likely stick with his team. He doesn't have much choice; GM tried to hire away two high-profile marketers from outside, according to two executives with knowledge of the job search. Between the challenge of shining up battered brands and the pay limits imposed by the government (CFO Liddell makes $750,000 a year, half what his predecessors made) Whitacre couldn't find any takers.

So the job is Docherty's. It took her two tries to get the Buick campaign right. Her first attempt, "Take a Look at Me Now," featured a foppish movie director shooting the LaCrosse while a makeup crew fussed over the car. Lutz cancelled the ads, complaining that they told buyers nothing about the cars. "When you're asking for $30,000," says Lutz, "you'd better say something about the product."

A new set of ads, brainstormed by Lutz and Docherty and rolled out last fall, calls Buick "the New Class of World Class"

Knowing that the pace of change had rattled his workforce, Whitacre sent a companywide e-mail on Mar. 31: "I want to reassure you that the major leadership changes are behind us"



On Apr. 21, Whitacre and the Chevy Volt took center stage at the Fairfax (Kan.) plant

and focuses on the latest models, the LaCrosse sedan and Enclave SUV. Scattered marketing aside, the LaCrosse has been a hit, and Buick, with only three models, has seen sales soar 59% this year, compared with a 17% rise for the entire U.S. car market. Chevy sales are up 39%, Cadillac sales are up 25%, and GMC sales have risen 32%, all beating the overall market.

With Saturn, Hummer, Pontiac, and Saab gone, those four brands are all GM has in the U.S. (Overseas, it owns Opel/Vauxhall, Holden, and Daewoo.) Whitacre sees Cadillac's CTS as a notable underperformer. On Mar. 3, the day after Reuss shook up sales and marketing, Whitacre phoned Ken Batchelor, a San Antonio Cadillac dealer he has known since they were in the Army Reserve together more than 40 years ago. Whitacre told his quail-hunting buddy that he was not pleased with Cadillac's results, Batchelor says. "Ed is of the belief that the CTS needs to be marketed better. He thinks we should be selling twice as many."

That's a tall order for GM's midsize, $36,000-and-up sedan. If Cadillac doubled CTS sales, it would rival competing models from BMW and Mercedes, something no other luxury brand does. The German carmakers lease to about half of their customers; they own their finance companies and can craft attractive lease deals. GM no longer controls GMAC and thus cannot order it or other banks to sacrifice financing profits in order to help Cadillac move cars.

GM has a herd of new cars coming. This year, showrooms

PHOTOGRAPH BY STEVE FECHT/GM/REUTERS



"What we were doing didn't work," says GM North America President Reuss. "The time of providing for everybody, no matter what their performance, is gone"

will see Buick's Regal sedan and the Chevy Cruze compact, a replacement for the Cobalt, which has been outsold by the Ford Focus. "GM didn't reach far enough with the Cruze," says John Wolkonowicz of IHS Global Insight. Next year brings Buick's Verano compact and Chevy's Aveo subcompact. And 2012 sees a new Malibu and, later on, Cadillac's flagship XTS sedan. The new Malibu's styling, according to Wolkonowicz, isn't as sophisticated as the current model's.

Whitacre wants to roll out the cars faster, but some product developers say he's naive about how long it takes to bring a product to market. After nine months inside GM, he will still stroll up to a clay model and ask why it can't be in showrooms in a year, griped one designer, who asked not to be named. It typically takes three. Whitacre can't change that—and he knows better than to micromanage the car guys. He doesn't attend Vice-Chairman Tom Stephens' Thursday morning product development meetings; he lets Stephens and chief designer Ed Welburn come up with models, then approves funding.

In his race to get GM ready for an IPO, Whitacre has delegated a lot to Reuss. His mission is to build sales without pumping up profit-eating incentives. For years, says Paddock, the Buffalo Chevy dealer, GM built as many cars as it hoped to sell and strong-armed the dealers into taking the inventory. If that didn't work, GM would lay on heavy rebates and give away profit to get the sales volume.

At the same time, dealers complained they have to subscribe to an outside service to track the incentives GM is offering on various models. GM gives the dealers that information, but in reports so complex that many dealers have trouble deciphering them.

On Whitacre's orders, Reuss is trying to demystify the process. In March embattled Toyota spent a company record amount on incentives to lure back wary consumers, offering 0% financing and other discounts. Reuss refused to get pulled in, dropping GM's average incentive from last year by $1,200 a car, to $3,500. GM's market share tumbled to 17.6% in March from 19.4% during January and February. But Reuss kept prices up and beat his sales goals. As March was coming to a close, Whitacre looked at the numbers and said: "This looks like we're headed toward growth in a positive way," Reuss recalls. "That's good."

Whitacre had his prairie charm working in March, when he paid his first visit to a GM assembly plant. At the Malibu factory in Fairfax, Kan., he walked the assembly line in jeans and a plain black sweatshirt, stopping to shake hands with workers and ask them what they did. He even tried to hang a body panel on a Malibu. "They nearly threw me out of the building," he joked later to workers and reporters. One worker said that in 25 years on the line, he had never seen a GM CEO.

Whitacre then held a series of "diagonal slice meetings" with employees from all levels of the factory. Some liked that he didn't come at them with edicts about boosting production. Instead, says Dave Robertson, a 29-year line worker who attended one of the meetings, he just said GM needed to "sell more cars." He told the workers they could help by building quality vehicles, and that if they needed anything, they should say so. "We're all in this together," he said, promising to come back in a month to talk about "the future of the plant."

"He seemed like a country guy," Robertson says. The workers liked him even better when he returned to Fairfax as promised on Apr. 21 to announce that GM had paid off its government loans and would be investing $136 million in the plant, making it the primary factory for the redesigned Malibu.

That bit of news got Whitacre an ovation. He is pouring $3 billion into the plants, enough to keep the United Auto Workers happy for now. If he can just figure out how to sell more cars—returning GM to long-term profitability, growing its market share for the first time since 2002—the workers will be ready to carve his name on the door of GM headquarters. Then Whitacre could look back at his career and say he had gone two-for-two. Until then, he won't be saying much. Ⓑ

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WhoC About Anot $200 Million



ares her ?

Oliver Budde, former Lehman Brothers associate general counsel, says CEO Dick Fuld failed to disclose hundreds of millions in compensation. An exclusive report by James Sterngold

Before Lloyd Blankfein of Goldman Sachs took his place, Richard S. Fuld Jr.'s angry face was the universal symbol of Wall Street greed. On Oct. 6, 2008, three weeks after Lehman Brothers filed the largest bankruptcy in U.S. history, Lehman's former CEO found himself before Representative Henry A. Waxman, the California Democrat who chaired the House Committee on Oversight and Government Reform. Waxman has stared down plenty of CEOs over the years, yet this had to be one of the most intense confrontations of his career.

"Mr. Fuld will do fine," Waxman said. "He can walk away from Lehman a wealthy man who earned over $500 million. But taxpayers are left with a $700 billion bill to rescue Wall Street and an economy in crisis."

Fuld said he was a victim, not an architect, of the collapse, blaming a "crisis of confidence" in the markets for dooming his firm. Reckless management had nothing to do with it. "Lehman Brothers," he said, "was a casualty."

Fuld and Waxman went on to disagree about just how much money Fuld had taken out of Lehman before it went under. Fuld, now 64, said his total compensation from 2000 through 2007 was less than $310 million, not the $485 million that appeared on Waxman's chart. He said 85% of his pay was in Lehman stock that had become worthless. "I never sold my shares," Fuld said at one point. At another, he said he had not sold the "vast majority" of them.

"That just seems to me an incredible amount of money," Waxman responded.

Among those closely observing Fuld was a 49-year-old former Lehman lawyer named Oliver Budde who was watching the hearing at home on C-Span. Budde (pronounced Boo-da) was certain Waxman's figures weren't too high. They were too low, and he could prove it. Fuld, he believed, had understated the amount he was paid during those years by more than $200 million, and now he had done it under oath, for the entire world to see.

For nine years, Budde had served as an associate general counsel at Lehman. Preparing the public filings on executive compensation had been one of his major responsibilities, and he had been infuriated by what he saw as the firm's intentional under-representation of how much top executives like Fuld were paid. Budde says he argued with his bosses for years over the matter, so much so that he eventually quit the firm. After he left, he couldn't let the matter rest. He contacted the Securities & Exchange Commission and the Lehman board of directors but says neither showed interest in meeting him. He was so shocked by Fuld's testimony in front of Congress that he started thinking about writing a book going public with his story, which is told here for the first time.

"I wasn't surprised, because these guys don't surprise me anymore," Budde says. "But it just struck me—they're doing it again. I wasn't going to sit back and watch."

"I just assumed somebody was checking this stuff," Budde says. "They weren't."



Budde worked at Lehman from 1997 to 2006

By his own admission, Budde lacks the aggressive career drive usually found on Wall Street. He speaks proudly of having been a "free spirit" in his younger days when he was a ski bum and took a year off during college to sail the Caribbean as a steward on a yacht. He grew up in Cheshire, Conn., and went to Columbia University, where he received a BA in economics in 1983. After college, he drifted into a job as a cabdriver in New York, which ended when an irate driver sprayed him with a can of Mace after a fender bender on the FDR Drive. The experience made an office job suddenly seem tempting, and he found work as a paralegal at Skadden Arps, eventually going to law school on the firm's dime. He served as an associate for six years, working long hours, handling mostly corporate and securities-related matters. In 1997, when it became clear that he would not make partner, he decided to leave, landing as a vice-president in Lehman's corporate general counsel's office.

Budde says things were good at Lehman. His weekends were his own again. He owned a house near Stowe, a ski town in Vermont, and managed to escape there frequently. "It was a perfect arrangement," he says. "I left Friday afternoons for Vermont and came back Monday mornings. It was a job I was proud of. There was no 'ick' factor, at least at first."

At the time, Lehman made its money largely on bonds, and Fuld was a source of inspiration at the firm, a tough trader who was putting the company back in the game after a series of corporate missteps.

The first inklings of trouble for Budde came a couple of years into his tenure, when he says he objected to a tax deal that an outside accounting firm had proposed to lower medical insurance costs. This was an unusual move for a junior Wall Street lawyer. "My gut feeling was that this was just reshuffling some papers to get an expense off the balance sheet," he explains. "It was not the right thing, and I told them." Budde's bosses disagreed with him and O.K.'d the deal.

The incident opened his eyes to more serious issues, particularly what he began to see as a lack of transparency in how the firm disclosed restricted stock units, or RSUs, that it granted to senior executives. There were three types of RSUs: annual awards that usually vested in five years, longer-term awards that took until retirement to vest, and a final type that vested only if there were a change in control (i.e., if Lehman were acquired). In that 2000-07 time frame, Budde–relying on SEC filings–calculated that Fuld received $105 million in annual five-year RSU awards.

What Lehman failed to disclose properly, Budde says, were certain longer-term awards. Lehman took advantage of an interpretation of the SEC disclosure rules to underreport the value of these awards in the company's annual proxy statement and thereby mislead shareholders about just how much top executives were making. He complained to his superiors in the general counsel office, he says, and was told that the policy had been checked with outside attorneys at Simpson, Thacher & Bartlett. (Andrew Keller, the partner on the Lehman account, did not return calls seeking comment.) Those lawyers had deemed it acceptable to exclude unvested RSUs from the annual compensation tables in the SEC filings.

Budde thought this logic was flawed and believed the compensation committee made the problem worse when it pushed back the vesting of certain long-term RSUs. The firm's intention, says a former Lehman executive, was to promote long-term loyalty, but Budde suspected that it was a way to further postpone the disclosure of RSUs as compensation.

Lehman tweaked its policy in another way Budde found dubious. In its 2003 proxy statement, the firm reported that the board's compensation committee had decided to rewrite, retroactively, the terms under which the awards had been made in previous years. "Each tranche of the Extended RSUs will now vest following termination of employment with the Firm," the company disclosed. This meant the executives would get them when they left the firm, unless they were fired for cause. Lehman also disclosed that Fuld's extended RSUs were worth $90.4 million at the time. Budde believed that Lehman should have included that figure in the annual compensation table. Instead, the figure was put at the end of a long paragraph filled with financial jargon, where it was likely to be overlooked.

Budde says Lehman could also claim that it was disclosing these stock grants in its Section 16 statements, also known as "insider reports," which record top executives' transactions involving company stock. Budde created meticulous spreadsheets adding up Fuld's RSUs, options exercised, and any other shares bought or sold over the years. A disparity amounting

(PREVIOUS SPREAD) ALEX WONG/GETTY IMAGES. (THIS PAGE) PHOTOGRAPH BY MARC ASNIN FOR BLOOMBERG BUSINESSWEEK

to tens of millions of dollars shows up clearly if you compare the Section 16 information with the proxy statements, Budde says. "I just assumed that somebody was checking this stuff," he says. "They weren't."

According to W. Alan Kailer, a Dallas attorney with Hunton & Williams who has written articles and books on compensation disclosure, it would have been more transparent to disclose these types of awards in the compensation table the year they were granted to the executives, rather than waiting for them to vest. "This is an interpretation issue," he says, "but the best practice would be to report at the time that the award was originally made."

In February 2006, just after he received his bonus for the previous year, Budde resigned from Lehman.

To Budde's delight, later that year the SEC announced that it would require clear reporting of unvested RSUs and other stock-based awards in the proxy statement.

The first year Lehman had to alter its proxy reporting was 2008. Budde was ready to see how the firm would handle the change. At his home in Vermont, he pored over the documents when they were released in March. "I looked several times, and my jaw just dropped," he said. "What happened to the RSUs? It took me, someone who has written these documents, two or three times to spot the problems."

Budde calculated that while Lehman reported Fuld's RSUs as worth $146 million, the real figure, based on the Section 16 reports, was $409.5 million. Lehman had counted just 2 of 15 RSU awards. "You just didn't need to do this to this degree," he says. "It was disgraceful."

Considering his options, Budde decided to go to the SEC as a whistleblower. He sent a detailed two-page e-mail on Apr. 14, 2008, to the SEC's Enforcement Div., under the subject line "Possible Material Noncompliance with New Executive Compensation Disclosure Rules." Lehman was already in crisis mode at the time, but the meltdown of the firm was still several months away. After detailing what he believed was Fuld's failure to disclose more than $250 million in restricted stock awards, Budde wrote: "The last thing the country needs right now is another investment bank in crisis. I have wrestled with this over the past five weeks, since I first read the proxy. This is not a shot at retribution, and I am in no way a disgruntled former employee (disappointed, even disgusted, yes). I walked away freely from Lehman, and my ethical concerns in a number of areas were no secret to my superiors there." He got a standardized form thanking him for his letter in return. He never heard anything else. (The SEC does not comment on private communication with its enforcement division.)

Budde also wrote to Lehman's board members but was ignored by them as well. A former Lehman official, who spoke anonymously because internal board business is confidential, confirmed that the board had received Budde's warnings. Budde said that Fuld had understated his compensation by more than $200 million during the October 2008 congressional hearing. While Fuld said he earned less than $310 million from 2000 through 2007, he actually had received $529.4 million, according to Budde's calculations.

In direct contradiction to Fuld's claim to Waxman that he had not sold the majority of his shares, Budde estimates that Fuld earned $469 million from stock sales between 2000 and 2008. These calculations are supported by the working paper from a Harvard University study that was made public late last year and is scheduled to be published this summer in the *Yale Journal on Regulation*. In "The Wages of Failure: Executive Compensation at Bear Stearns and Lehman, 2000-2008," Harvard Law professor Lucian Bebchuk; Alma Cohen, a visiting professor from Tel Aviv University; and Holger Spamann, a Harvard Law lecturer, calculate that Fuld earned $522.7 million from 2000 to 2007, only slightly less than Budde's tally. The study found that Fuld earned $461.2 million of that total from the sale of 12.4 million shares of Lehman stock, more than the 10.8 million shares, including unvested RSUs, he owned at the time of Lehman's bankruptcy.

The authors of the Harvard paper said they were motivated by an incorrect popular assumption that top executives of investment banks, particularly Bear Stearns and Lehman Brothers, had suffered big personal losses in their share holdings and that this proved the compensation systems at the firms were not to blame for the crisis. Instead, they concluded, executives including Fuld had sold many of their shares before the crisis hit and ended up losing much less than they let on.

Through his attorney Patricia Hynes, Fuld declines to comment. "We're not giving any interviews," says Hynes. Fuld did not respond to detailed questions faxed to his office. Calls to John Akers, former chairman of IBM, and John Macomber, former chairman of Celanese Corp., who both served on the compensation committee of Lehman's board, were not returned.

Fuld continued getting money out of Lehman Brothers right up until the end. In March 2008, with the credit crisis gathering force and talk circulating of Lehman's precarious state, Fuld and his lieutenants argued in the proxy statement that they deserved large incentive awards for "successfully navigating the difficult credit and mortgage environments and maintaining the firm's strong risk controls." The board agreed, awarding Fuld $40 million for his work in 2007, of which $35 million was in restricted stock.

When the bank collapsed in September 2008, the restricted stock was rendered worthless. However, the board did allow Fuld to cash in a Lehman investment partnership despite rules that normally allowed redemptions only if the executive left Lehman or died, according to a report on the bankruptcy by Anton R. Valukas, the bankruptcy examiner. Two months before Lehman filed for bankruptcy, the board agreed to pay Fuld $4 million for his limited partnership interest.

In advance of his testimony, Simpson Thacher & Bartlett racked up 889.3 hours of work prepping Fuld and producing documents for Congress. The bill, paid by the bankruptcy estate, came to $491,197.

One question that remains is why Budde stayed on at Lehman for as long as he did, given what he says he observed there. "It's kind of like the frog in the boiling water," he says. "It took a while to figure out how bad it was. My moral compass was always there, but I felt I was learning important stuff. I always told my boss how I felt, and I made my objections."

Budde doesn't have a job. He's living off savings in Vermont and says he's enjoying a simpler life. He is considering putting his financial background to a more productive use, by helping a pension fund do socially responsible investing, for example. "I don't want to come across as a Boy Scout," he says, "but this is the job you're licensed by society to do as a lawyer, to stand up." B

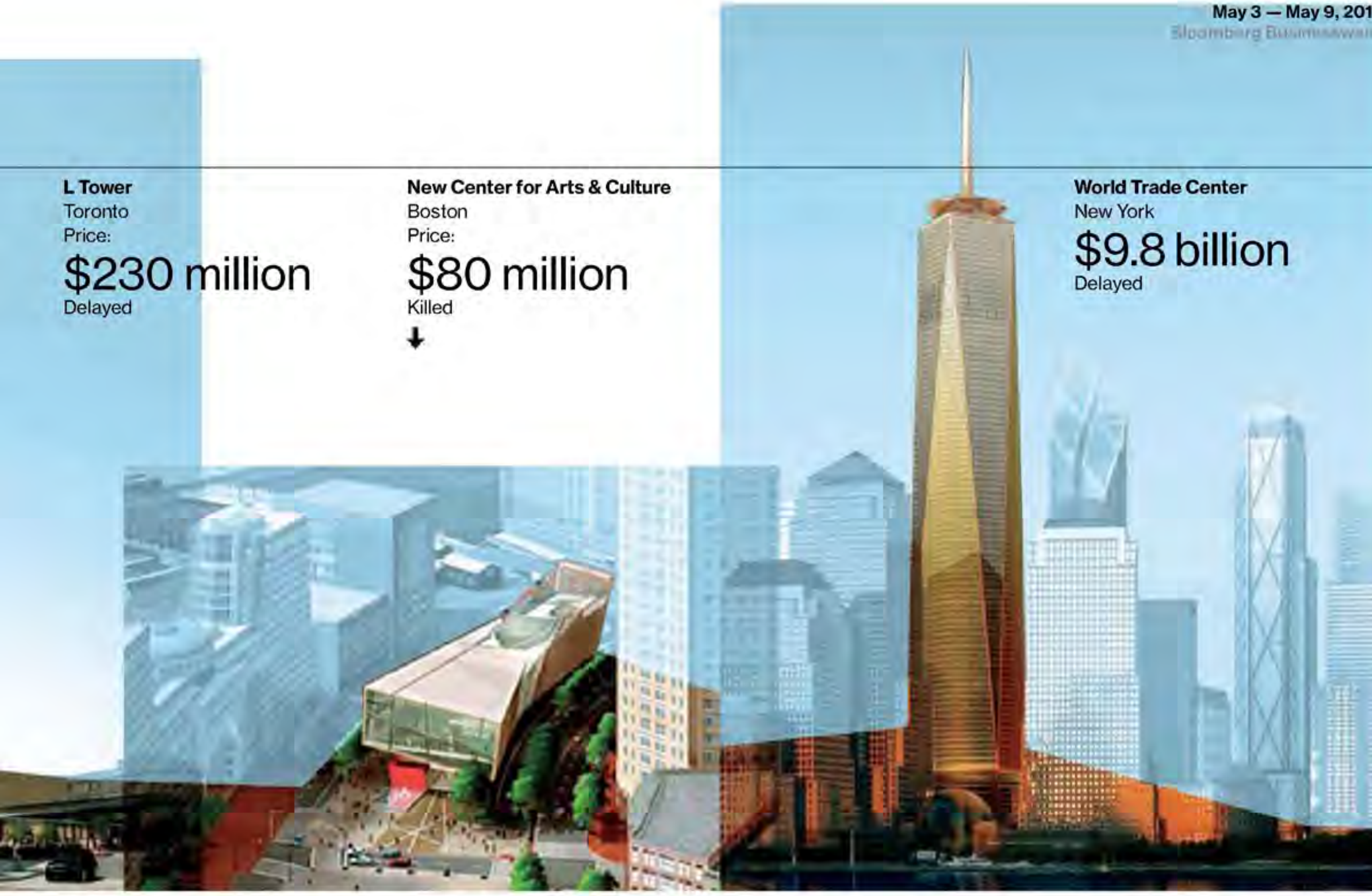


Beautiful Impossibilities

The global real estate implosion killed off dozens of designs by celebrity architects. Some of those projects are still hibernating. Many will never be built, as the profession tries to recover from the worst cycle it has known. By Michael Arndt

The inside of Studio Daniel Libeskind is crowded with hope. Every desktop, table, storage shelf, and file cabinet in the loft that serves as the firm's Lower Manhattan headquarters sprouts a scale-model building. These detailed miniatures, made of plastic, cardboard, and wood, are an early step in the architectural process, a 3D glimpse of structures that, with a little faith and a lot of money, will one day rise from the ground, spreading good design along with the Libeskind name.

On one table is a four-tower residential/hotel complex destined for Busan, South Korea, in 2011. On another is a 58-story condominium high-rise that just got under way in Toronto after a two-year hiatus. Over there is a shopping mall in CityCenter in Las Vegas, which opened last December. And that's where faith and financing reach their limits. The $80 million New Center for Arts & Culture in Boston? Canceled, as is the mixed-use seaside development in Monaco. A 54-story residential skyscraper in Warsaw grew to just 16 floors before the cash ran out. A 43-story condo in Los Angeles is delayed pending new financing. The World Trade Center redevelopment in New York has been scaled back after almost eight years of delays. "You have to be an optimist as an architect," says Daniel Libeskind, 63, the firm's founder and principal. "I don't know of a single project where someone said, 'We just ran out





Architect: Libeskind

RENDERINGS BY AMD (FIGUEROA); MILLER HARE (CAPE GRACE); SPINE 3D (L TOWER); NEOSCAPE (NEW CENTER FOR ARTS & CULTURE); TEAM MACARIE (WORLD TRADE CENTER); PHOTO BY MICHAEL KLINKHAMER (LIBESKIND)

of money, no more project.' Some of them are hibernating."

Architecture is notoriously cyclical, rising and falling in tandem with real estate. Firms suffered large losses, and dumped employees, as construction sank in 1991-92 and again in 2002-03. Yet neither retrenchment approached the severity of the current slump. The American Institute of Architects' billings index—a survey of nearly 600 firms that measures planned construction—has been contracting for 26 consecutive months. Since mid-2008, when architecture employment in the U.S. peaked at 220,500 jobs, the profession has cut 55,000 people, or one in four, according to the Bureau of Labor Statistics. The layoffs continued in March even as overall payrolls grew.

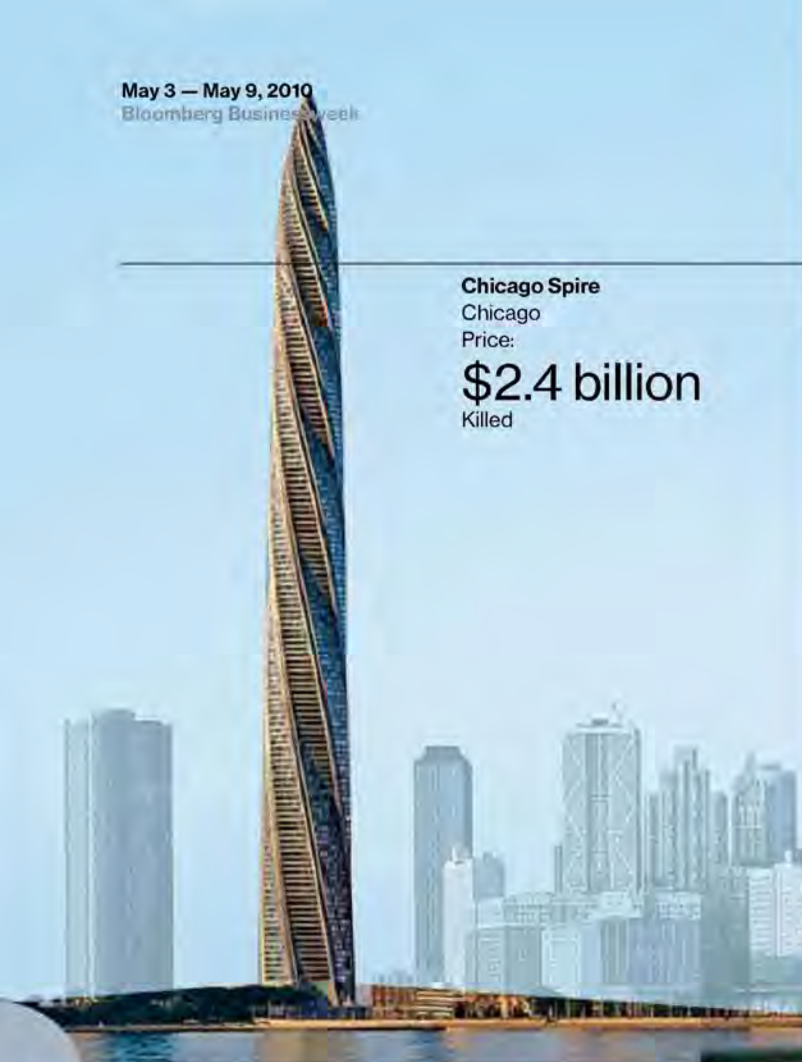
Executives from architecture firms such as Gensler and Perkins + Will say that prior to the recession, they competed with just a handful of rivals on any given bid. Now, because work is so scarce, they commonly face 12 to 15 rivals. Fees have plunged as clients press the negotiating advantage and firms race one another to the bottom. Historically, margins averaged 15%, these executives say. That has fallen to 5% to 10%, and in some cases firms are submitting breakeven bids just to get the work. "It's a rough-and-tumble world out there," says David Gensler, executive director of Gensler, the biggest U.S.-based practice by number of architects. "It's become a battle for market share."

In an attempt to compensate for the paucity of meal-ticket projects, major firms are broadening their services. Commercial architecture represented 50% of business at San Francisco-based Gensler in the mid-2000s. This year, that has dropped to 35%, with renovations of offices and car dealerships now the fastest-growing area. St. Louis-based HOK, which ranks second in the U.S. and fourth in the world, had two megaprojects in Dubai die within 36 hours in late 2008 and has stepped up its building rehab and product design practices. The firm recently launched a line of commercial lighting fixtures.

None of those sidelines, though, brings in as much as soaring planes of concrete, steel, and glass. Revenue at HOK fell 21% in 2009, to $473 million. Vice-Chairman Clark Davis says labor accounts for more than 80% of costs, which left management little choice but to cut the workforce from 2,300 to 1,800 today. As revenues at Gensler fell 30% to under $500 million in 2008, the company cut 750 people from its workforce of 3,000.

"We're not a flush industry. We're not Goldman Sachs," says Phil Harrison, CEO of Perkins + Will, which laid off 150 people, 10% of its workforce, over the past 18 months. He says the Atlanta-based partnership is moving further into urban planning, infrastructure projects, and building rehabs. Still, the firm won't add personnel until next year at the earliest, Harrison says.

The architecture recession has been just as brutal to the profession's celebrities, or starchitects. Since the Frank Gehry-



Chicago Spire
Chicago
Price:
$2.4 billion
Killed



Opus
Dubai
Price:
$245 million
Killed



Architect: Calatrava

designed Guggenheim Museum Bilbao opened to the public in 1997, starchitects such as Gehry, Norman Foster (London's glass-sheathed "Gherkin" and Wembley Stadium), and Santiago Calatrava (Athens' Olympic Stadium and the Milwaukee Art Museum) have become as famous as their buildings. Calatrava shared a booking with Sandra Bullock on *Charlie Rose*. Gehry has been featured in *People* magazine.

Foster's Foster + Partners fired 300 workers in 2009, a quarter of its total staff, and closed offices in Berlin and Istanbul. The London-based firm's Russia Tower in Moscow, a wedge-shaped structure that would have topped out at nearly 2,000 feet, was canceled last year after the developer ran out of cash. Held up for years, Foster's Tower 2 for a new World Trade Center in New York was postponed indefinitely in March. Calatrava's twisting Chicago Spire, designed to surpass the city's Willis Tower as the Western Hemisphere's tallest building, was halted in late 2008, leaving a large pit in the ground. There's not even a hole to mark the Spanish architect's planned 835-foot-tall residential high-rise in New York; it was dropped because the developer couldn't presell enough units. Among Calatrava's more notable 2010 commissions is a stage set for the New York City Ballet.

Frank Gehry has cut his Gehry Partners workforce from 250 to 120 since 2007, as clients shelved a $4 billion project in Brooklyn that would have filled 22 acres with offices and residences, and a $3 billion project in downtown Los Angeles that would have brought high-rise luxury condominiums and shopping to the area adjacent to Gehry's undulating silver Walt Disney Concert Hall. Gehry, 81, says he enjoys managing a smaller staff, and the slower pace has given him time for oddball projects: He recently dashed off a hat design on his iPhone for Lady Gaga. Still, traveling to drum up jobs is aggravating, and, even as he remains selective, Gehry admits he's settled for smaller commissions than he's accustomed to. ("I'm not taking on houses yet," he points out; houses, and their finicky owners and relatively measly price tags, are low on any celebrity architect's list of desirable projects.) Still, work at Gehry Partners is so slack that the firm is going without summer interns.

The lone starchitect who seems to be thriving in the downturn is Iraqi-born deconstructivist Zaha Hadid; her namesake firm hired 90 people over the past year, increasing its worldwide staff to nearly 400. Roberto Sforza, chief financial officer of the London-based practice, says revenue jumped 27% in the year ended Apr. 30, to $57 million, despite the cancellation of two trophy projects in Dubai in 2009 and, a year earlier, the headquarters for the Architecture Foundation in London. New projects elsewhere in the Middle East, such as the Stone Towers in Cairo, an office and residential complex more than

Architecture Foundation
London
Price:
$10 million
Killed
↓

Signature Towers
Dubai
Price:
Undisclosed
Killed







Architect: Hadid

RENDERINGS COURTESY OF SHELBOURNE DEVELOPMENT/SANTIAGO CALATRAVA (CHICAGO SPIRE) AND ZAHA HADID ARCHITECTS (OPUS, ARCHITECTURE FOUNDATION, DANCING TOWERS); PHOTOS BY CHARLES REX ARBOGAST/AP PHOTO (CALATRAVA), ALBERTO HERAS (HADID)

twice as big as the Empire State Building in square footage, have more than made up for those setbacks. Sforza says Hadid has so much business—the firm is evaluating 87 additional projects and getting 20 inquiries a month—that it can charge more than the standard 15% markup. "Clients are knocking on our doors more than ever," he says. Hadid, 59, is prospering not only because of her distinctive designs, says Paul Finch, editorial director of the *Architectural Review/Architects' Journal*. Since she is the first woman architect to gain name-brand status, her work comes with "excitement, glamour, and an expectation of design beyond architecture," Finch says.

Daniel Libeskind was a star, too, when his master plan was selected for the World Trade Center redevelopment in 2002. Shortly after, Libeskind—a naturalized American born in Poland—and his wife, Nina, relocated from Berlin to New York. He chose his new office because it was just a couple of blocks from Ground Zero. By late 2006, the studio had doubled to almost 70 employees in five years; there were so many projects, and so many incoming proposals, that the Libeskinds discussed another doubling of staff. By January 2009, the downturn had taken hold and, for the first time, Libeskind was laying people off. "This was a terribly traumatic event," Nina Libeskind says.

Today the Libeskinds think the worst might be over. True, the studio is getting 25% fewer new work proposals than in 2007, and the headcount remains 15% below its peak. But multiyear developments are under way in Italy and Singapore. The L Tower in Toronto is under construction after a two-year delay, and would-be clients in the Middle East, Asia, and South America are showing interest. The firm, which puts its annual revenue between $20 million and $25 million, has hired a half-dozen employees and, late last year, gave the 58-person staff small bonuses and 5% pay increases.

Libeskind's portfolio has become noticeably less glamorous, however. His latest jobs include shopping centers in Bern, Switzerland, and Las Vegas, a single-family home in Connecticut, limited-production "Villa Libeskind" prefab homes for German builder Proportion, and door handles for Italian manufacturer Olivari. Libeskind says he took the assignments because they seemed interesting, not because he needed the money. "I didn't come into architecture as a business," he says. "I never started with the point of view of profitability. It was from sheer madness of loving architecture."

He adds: "I don't think you can be a pessimistic architect, because even if you have no work, you are still working with drawings; you are still working on future ideas. Those buildings get built later." Maybe they will: His Jewish Museum in Berlin didn't open until 2001. That's 12 years after he was awarded the project. Ⓑ

Hardselling the Homeless

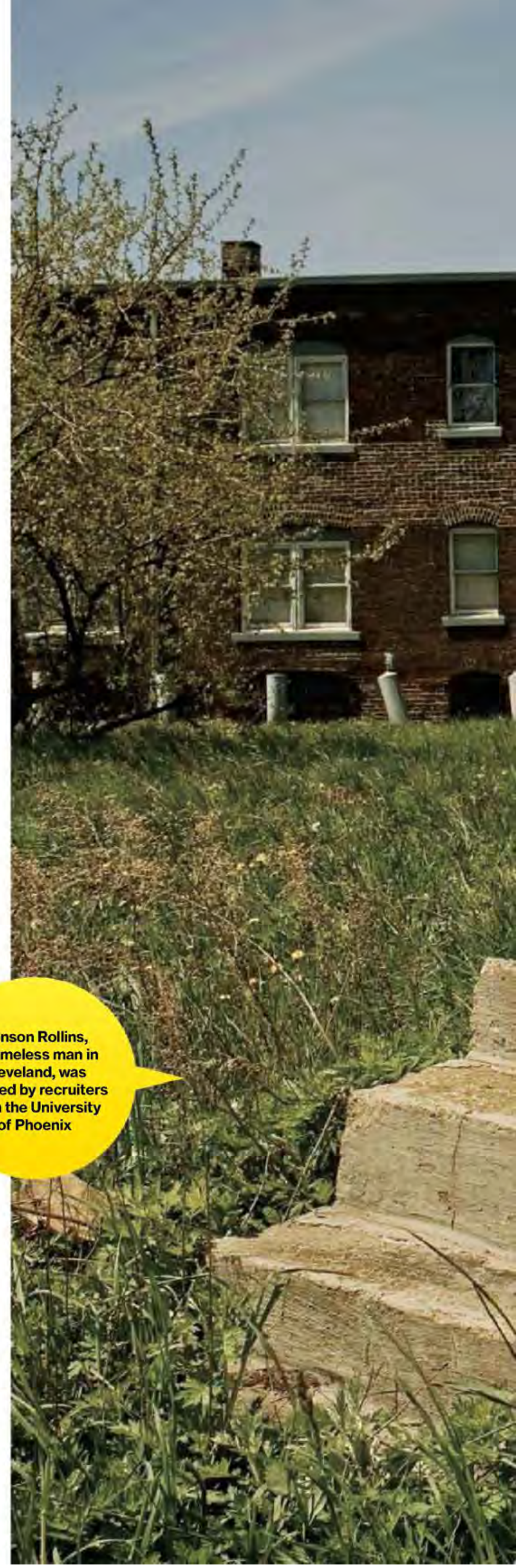
For-profit colleges are reaching into shelters and halfway houses for new students, loading them up with debt and leaving taxpayers on the hook.
By Daniel Golden
Photograph by Ross Mantle

Benson Rollins wants a college degree. The unemployed high school dropout who attends Alcoholics Anonymous and has been homeless for 10 months is being courted by the University of Phoenix. Two of its recruiters got themselves invited to a Cleveland shelter last October and pitched the advantages of going to the country's largest for-profit college to 70 destitute men.

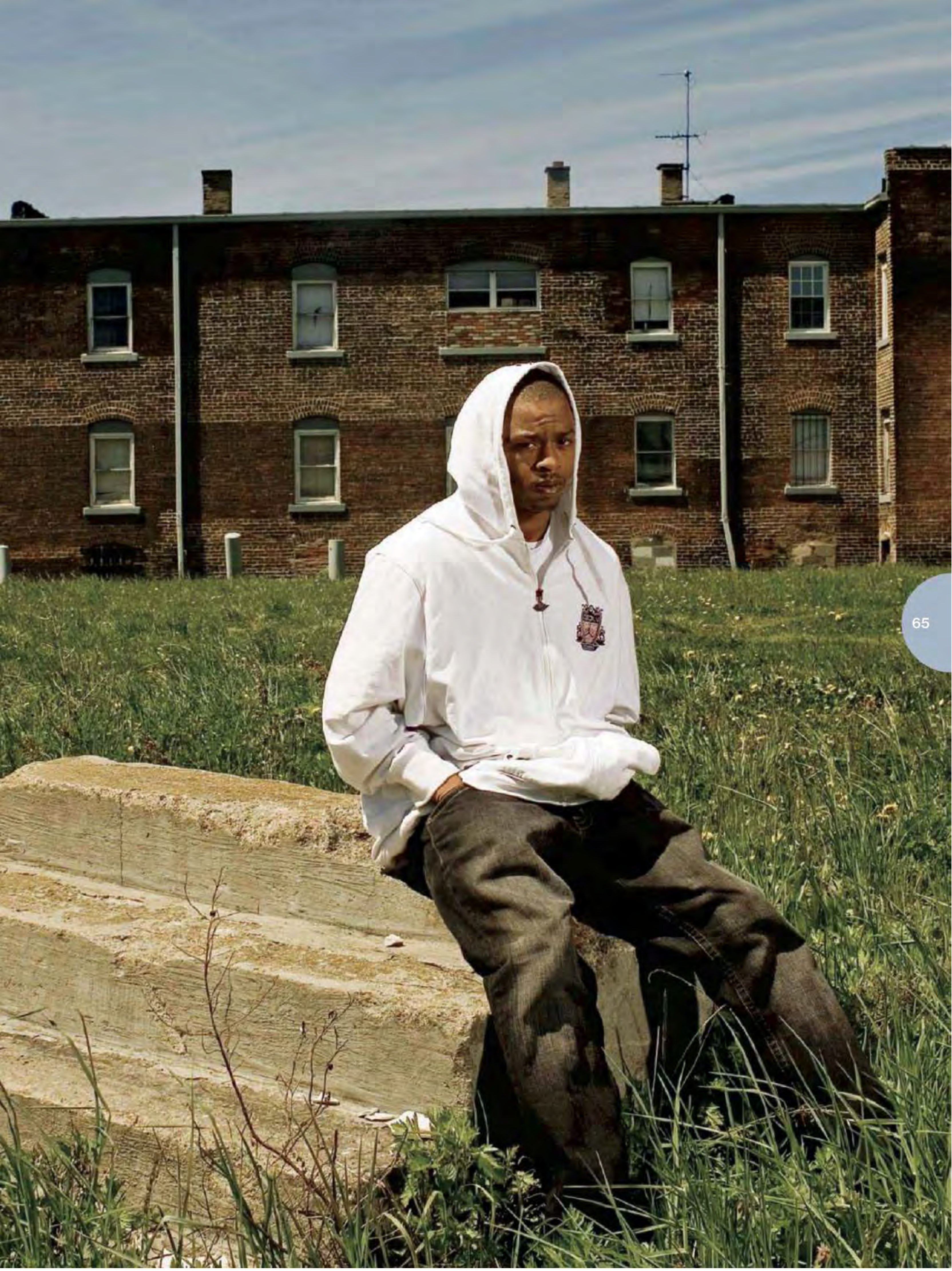
Their visit spurred the 23-year-old Rollins to fill out an online form expressing interest. Phoenix salespeople then barraged him with phone calls and e-mails, urging a tour of its Cleveland campus. "If higher education is important to you for professional growth, and to achieve your academic goals, why wait any longer? Classes start soon and space is limited," one Phoenix employee e-mailed him on Apr. 15. "I'll be happy to walk you through the entire application process."

Rollins' experience is increasingly common. The boom in for-profit education, driven by a political consensus that all Americans need more than a high school diploma, has intensified efforts to recruit the homeless. Such disadvantaged students are desirable because they qualify for federal grants and loans, which are largely responsible for the prosperity of for-profit colleges. Federal aid to students at for-profit colleges jumped from $4.6 billion in 2000 to $26.5 billion in 2009. Publicly traded higher education companies derive three-fourths of their revenue from federal funds, with Phoenix at 86%, up from just 48% in 2001 and approaching the 90% limit set by federal law.

The privately held Drake College of Business, which trains people to be medical and dental assistants, relied on taxpayers for 87% of its revenue in 2007. Almost 5% of the student



Benson Rollins, a homeless man in Cleveland, was courted by recruiters from the University of Phoenix



body at its Newark (N.J.) branch is homeless, says Jean Aoun, director of admissions and student services there. Late in 2008, it began offering a $350 biweekly stipend to students who show up for 80% of classes and maintain a "C" average.

"It's basically known in the community: If you're homeless, and you need some money, go to Drake," says Carmella Hutson, a case manager at the Goodwill Rescue Mission in Newark, where about 20 clients have enrolled at Drake in the past two years. "It would put money in my pocket, help me buy a car," adds Jerome Nickens, 45, who lived at the mission when he talked to a Drake representative but decided not to enroll.

After *Bloomberg Businessweek* called the Accrediting Council for Independent Colleges & Schools to inquire about the stipends, the council opened an investigation into the college's recruitment practices. The inquiry could lead to revoking Drake's accreditation, leaving it ineligible for federal aid.

Chancellor University in Cleveland, which counts Jack Welch as an investor and features a weekly video for students by the former General Electric chief executive, explicitly focused recruiting efforts on local shelters after it realized that Phoenix, owned by Apollo Group, was doing so. Chancellor has stopped pursuing the homeless, and Phoenix says any recruiting by its employees in Cleveland shelters was unauthorized. Phoenix's business code prohibits recruiting at shelters, and any employee violating the ban could face termination, Apollo says. Phoenix wants to ensure that "only students who have a reasonable chance to succeed enroll in our programs," Apollo spokesman Manny Rivera said in an e-mail.

Other schools see nothing wrong with reaching out to the disadvantaged. "We don't exclusively target the homeless," says Ziad Fadel, CEO of Drake, which also sends recruiters to welfare and employment agencies. "We are in a community that is low-income and happens to have a lot of people on welfare."

The every-other-Friday payment encourages Drake students to stay in school and graduate, he says. The stipend, which about three-fourths of Drake's 1,200 students receive, is not "a gimmick to just get students in the front door," Fadel says. He adds that a sample analysis of 30 graduates placed by Drake's career services office found "some very substantial improvements in income."

While many caseworkers for the homeless are gratified by the attention, some see only exploitation. The companies "are preying upon people who are already vulnerable and can't make it through a university," says Sara Cohen, a case manager at Shelter Now in Meriden, Conn. "It's evil."

The current state of for-profit education has an element of déjà vu. Twenty years ago the sector had grown wild and unruly, as fly-by-night trade schools siphoned off students from welfare and unemployment lines, ostensibly to train them as truck drivers or hairdressers. Often these enterprises provided little or no schooling; their aim was the federal student aid. Default rates on student loans skyrocketed to 22% before Congress enacted tough regulations in 1992. Among them were limits on default rates for individual colleges as well as a cap on the percentage of their revenues that they could receive from the government. The schools were also forbidden to pay recruiters based on how many students they enrolled.

The reforms injected discipline into the industry and brought down default rates. Then, a decade later, the Bush Administration relaxed the ban on incentive compensation for recruiters, opening the door for the aggressive wooing of the homeless. "Targeting vulnerable populations who are not likely to benefit is one example of overzealous recruiting that can be driven by paying based on enrollment numbers," says Robert Shireman, Deputy Under Secretary of the U.S. Education Dept., which is pushing to tighten the rules.

The Bush Administration also sought to unleash online education's potential. Phoenix now boasts 458,600 students, with more than 200,000 in its two-year online program. Enrollment in for-profit colleges went from 673,000 in 2000 to 1.8 million in 2008. Revenue rose from $9 billion in 2000 to an estimated $29.2 billion this year, says Jeffrey Silber, an analyst for BMO Capital Markets in New York. Operating margins averaged 21% in 2009; schools typically charge $10,000 to $20,000 a year, well above comparable programs at community colleges.

The industry is now fully mainstream. Goldman Sachs owns 38% of the for-profit Education Management Corp. in Pittsburgh, which has 136,000 students in programs ranging from fashion to culinary arts, and former President Bill Clinton took a position as honorary chancellor of Laureate International Universities, owned by Baltimore-based Laureate Education. Investors are flocking to the industry, drawn by the stability of government funding and the profit potential of online classes. But some of the unsavory practices that spurred Congress to act are springing back to life, with a new wrinkle or two.

In Cleveland, Chancellor and Phoenix were both hitting the homeless shelters last year. Byron Thompson, who joined Phoenix in 2009 as a recruiter, soon made presentations at Y Haven, Salvation Army Harbor Light, and Transitional Housing, all of which serve the homeless.

Thompson, 29, says the recruiting served a social purpose: "I feel the homeless are a real population that can't be ignored." Borrowing by the homeless to pay tuition "is no different from a middle-class student who has to take out a loan," he says. He also hoped to boost his pay. "The month I signed up two or three women from Transitional Housing was a good month," he admits. (Phoenix recruiters in Cleveland had a quota of five students a month, according to a former employee.)

Thompson, who left Phoenix in January, acknowledges that his bosses didn't endorse his efforts to recruit the homeless. Apollo Group agreed last December to pay $78.5 million to settle a federal lawsuit in California alleging that compensation for Phoenix recruiters violated restrictions on incentive

"It's basically known in the community: If you're homeless, and you need some money, go to Drake"

pay. The company, which admitted no wrongdoing, says it's changing its compensation model.

While Thompson says he was "welcomed with open arms" at the shelters, some staff members were wary. "The question in my mind about Phoenix was, 'Why are they doing this?' " says Bruce Shagovac, a counselor at Y Haven. "There's got to be some payoff for them."

One homeless woman whom Thompson steered to Phoenix was Marisol Lugo. Lugo ran away from her Chicago home at age 12, became a heroin addict, and lived on the streets for 22 years, eating out of restaurant trash bins and sleeping in parks and abandoned cars. After detox, she moved in 2008 to Transitional Housing, obtained a high school equivalency degree, and got to know Thompson. "He gave me wonderful words of encouragement," says Lugo.

With federal grants and loans covering the $10,000-plus annual tuition, she began pursuing a two-year business degree online at Phoenix last August. She soon ran into academic difficulties, failing a course in critical thinking. "Sometimes, having used so much drugs, I have trouble retaining information," says Lugo, who now has her own apartment and a maintenance job at the shelter. According to Phoenix, she left the school in November. She says she is still registered and there is a payment dispute.

Phoenix's forays into shelters were noted by a new Cleveland rival. In 2008 investors bought nonprofit Myers University, which was under court receivership, and renamed it Chancellor. A year later Welch acquired a stake in it; the university named its new master's degree program in business administration after him, and Welch helped develop the curriculum.

At a faculty function last August, Darius Navran, dean of Chancellor's School of Professional Studies, sought out Jeffrey Perkins Jr., an adjunct professor of public administration, and asked how Chancellor could boost its enrollment of about 400. "If we don't tap into that population, Phoenix will," Perkins says he told Navran, meaning the homeless. The dean agreed.

Chancellor's small classes and low student-to-faculty ratio are suited to nontraditional students such as the homeless, Perkins says. He e-mailed managers of Cleveland social service agencies in September, inviting them to a lunch at Chancellor to "discuss our new plans to recruit the economically disadvantaged and at-risk groups. Many of them are targeted for on-site recruitment at local transitional housing, halfway houses, and other human service facilities."

Sixteen human services managers showed up for the lunch. Two days later, in a memo to Navran, Perkins predicted that the program would produce "a minimum of at least 10 enrollees by spring term."

In the ensuing weeks, Perkins and other Chancellor officials gave presentations at a dozen social service programs. Their pitch was "very heavy-handed," says Phillip Hines, housing coordinator for the Community Women's Shelter. "It was beating the drum, 'Go to Chancellor. This is what we offer. Financial aid, financial aid, financial aid.' "

Afterward, Hines says, Chancellor hounded him with phone calls and e-mails to "get these women rolling." Chancellor's initiative reaped only one or two students and was discontinued. It "had all the best intentions," CEO Bob Barker said in an e-mail, "but the time and effort generated very little interest."

For-Profit Purveyors Of Higher Learning



At Newark's Drake College of Business, annual tuition is $15,700



Cleveland's for-profit Chancellor University counts Jack Welch as an investor


The University of Phoenix's Cleveland campus is just off the interstate

FROM TOP: JOHN MUNSON/THE STAR-LEDGER; ROSS MANTLE FOR BLOOMBERG BUSINESSWEEK (2)

In one view, the rise of for-profit colleges represents a laudable merger of public interest and the private sector. With public colleges beset by budget cuts, for-profit colleges offer an opportunity for people who are down and out to get ahead. Students with no assets or collateral can tap federal grants and loans on the theory that degrees will lead to well-paying jobs that enable borrowers to repay.

The trouble is the cost. Education companies charge high prices that require students to take on debt. Chancellor charges $9,750 a year—about four times the $2,400 tab at nearby Cuyahoga Community College. Poor students can pay Cuyahoga's tuition with federal grants and don't have to take out loans. Student advisers from Cuyahoga also make the rounds at Cleveland area shelters, helping the homeless choose colleges and fill out applications.

And for-profit tuitions are rising fast. Drake hiked its tuition from $4,000 in 2007-2008 to $15,700 this year, which Fadel attributes to new equipment and additional staff. Borrowers who earned bachelor's degrees from for-profit colleges in 2007-2008 had a median debt of $32,653, well above the $22,375 and $17,700 for graduates of four-year private nonprofit and public colleges, respectively.

Such burdens can be difficult for homeless people who are more likely to suffer from mental illness and substance abuse than the general population. Bad credit doesn't go away easily. In the Cleveland shelters, you can still find people with trade school debts from 20 years ago. Those who don't repay their student loans may forfeit their chances for public housing and are also ineligible for federal financial aid to return to college.

"If the homeless have a bad student loan, they can't find a place to live, they can't go back to school, and in this economy there's not a lot of work," said Ardretta Jones, a case manager at Tacoma Rescue Mission in Tacoma, Wash. "That leaves a person with no options."

Because they don't have to repay their educational loans until they leave school, some homeless students spend beyond their means. Kim Rose, a recovering crack cocaine addict and ex-offender in Raleigh, N.C., began pursuing an online bachelor's degree in business last November at Capella Education's Capella University, based in Minneapolis. At the time she was staying in a drug-free program with Internet access. Rose, 38, receives almost $4,000 each academic quarter in federal grants and loans for tuition and living expenses. She splurged last Christmas, spending $700 of her financial aid on presents for her seven-year-old son, who has lived with his grandmother. "I got him everything he wanted," Rose said in a telephone interview. "Games, toys. He's a guitar freak, I got him a guitar. To make up for me not being there."

In February, Rose moved into a shelter where the only computer was broken. As a result, she has struggled to keep up, dropping an English composition course. Rose isn't typical of Capella students, most of whom are midcareer professionals seeking graduate degrees, says university spokeswoman Irene Silber: "We would not intentionally recruit someone who is in a life crisis, much less one as significant as homelessness."

"It was beating the drum, 'Go to Chancellor. This is what we offer. Financial aid, financial aid, financial aid'"

Given the troubled pasts of some homeless students, even a college education hardly promises a well-paying job. Brenda Torchia, another recovering crack cocaine addict in Raleigh who has served several prison terms for drug offenses, was in a shelter and looking online for work when she saw an ad that asked if she wanted to further her education. She answered yes and was directed to the Web site of a for-profit school called ECPI College of Technology based in Virginia Beach, Va.

Torchia applied, passed a placement test, and started ECPI's medical administration program on Mar. 1. The 40-year-old mother of four is borrowing about half of the $23,000 tab from the federal government, with grants and scholarships paying the rest. ECPI officials are aware of her background and "guarantee me a job in the field," Torchia says. "My school is very, very supportive of me. I guess God opened up their hearts to receive me for whom I am."

Torchia's history would be a red flag for health-care employers because hospitals and clinics have drugs on site, says Susan Eget, communications director of the American Academy of Medical Administrators. While ECPI doesn't promise jobs, President Mark Dreyfus says, medical administration offers Torchia's best chance because not all employers check backgrounds and she could process records in a back office where drugs aren't accessible.

In the end, Benson Rollins didn't succumb to Phoenix's hard sell. He is taking a class for his high school equivalency degree and hopes to study law enforcement in college. For now, he would like a job so he can pay child support for his one-year-old daughter, whom he rarely sees.

The Phoenix recruiters, he says, failed to mention a critical point: He would have to take out a government loan at 5% to 7% interest to pay the $10,000-plus annual tuition. "I'm in a homeless shelter, and money is hard to come by," Rollins says. "It's not worth going to school to end up in debt." B

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Bulk up your portfolio with clean technology Page 76

Money&Gadgets&Umbrellas&Sports&Oprah

Etc.

Dishing with David Chang Page 75





Your Office Chair Is Killing You

Meet public enemy No. 1 in today's workplace *By Arianne Cohen* →

Photograph by Nick Veasey

TOP: STOCKFOOD

Etc. Chairs

If you're reading this article sitting down—the position we all hold more than any other, for an average of 8.9 hours a day—stop and take stock of how your body feels. Is there an ache in your lower back? A light numbness in your rear and lower thigh? Are you feeling a little down?

These symptoms are all normal, and they're not good. They may well be caused by doing precisely what you're doing—sitting. New research in the diverse fields of epidemiology, molecular biology, biomechanics, and physiology is converging toward a startling conclusion: Sitting is a public-health risk. And exercising doesn't offset it. "People need to understand that the qualitative mechanisms of sitting are completely different from walking or exercising," says University of Missouri microbiologist Marc Hamilton. "Sitting too much is not the same as exercising too little. They do completely different things to the body."

In a 2005 article in *Science* magazine, James A. Levine, an obesity specialist at the Mayo Clinic, pinpointed why, despite similar diets, some people are fat and others aren't. "We found that people with obesity have a natural predisposition to be attracted to the chair, and that's true even after obese people lose weight," he says. "What fascinates me is that humans evolved over 1.5 million years entirely on the ability to walk and move. And literally 150 years ago, 90% of human endeavor was still agricultural. In a tiny speck of time we've become chair-sentenced," Levine says.

Hamilton, like many sitting researchers, doesn't own an office chair. "If you're standing around and puttering, you recruit specialized muscles designed for postural support that never tire," he says. "They're unique in that the nervous system recruits them for low-intensity activity and they're very rich in enzymes." One enzyme, lipoprotein lipase, grabs fat and cholesterol from the blood, burning the fat into energy while shifting the cholesterol from LDL (the bad kind) to HDL (the healthy kind). When you sit, the muscles are relaxed, and enzyme activity drops by 90% to 95%, leaving fat to camp out in the bloodstream. Within a couple hours of sitting, healthy cholesterol plummets by 20%.

The data back him up. Older people who move around have half the mortality rate of their peers. Frequent TV and Web surfers (sitters) have higher rates of hypertension, obesity, high blood triglycerides, low HDL cholesterol, and high blood sugar, regardless of weight. Lean people, on average, stand for two hours longer than their counterparts.

The chair you're sitting in now is likely contributing to the problem. "Short of sitting on a spike, you can't do much worse than a standard office chair," says Galen Cranz, a professor at the University of California at Berkeley. She explains that the spine wasn't meant to stay for long periods in a seated position. Generally speaking, the slight S shape of the spine serves us well. "If you think about a heavy weight on a C or S, which is going to collapse more easily? The C," she says. But when you sit, the lower lumbar curve collapses, turning the spine's natural S-shape into a C, hampering the abdominal and back musculature that support the body. The body is left to slouch, and the lateral and oblique muscles grow weak and unable to support it.

This, in turn, causes problems with other parts of the body. "When you're standing, you're bearing weight through the hips, knees, and ankles," says Dr. Andrew C, Hecht, co-chief of spinal surgery at Mount Sinai Medical Center. "When you're sitting, you're bearing all that weight through the pelvis and spine, and it puts the highest pressure on your back discs. Looking at MRIs, even sitting with perfect posture causes serious pressure on your back."

Much of the perception about what makes for healthy and comfortable sitting has come from the chair industry, which in the 1960s and '70s started to address widespread complaints of back pain from workers. A chief cause of the problem, companies publicized, was a lack of lumbar sup-

Within a couple of hours of sitting, healthy cholesterol plummets by 20%

If you must, sit on these...

The U.S. swivel chair market is worth more than $3 billion and has 100-plus participants

Here are some of your better options



The Junior 8561 *Keilhauer*
Its pedestal back support and sleek style justify a price north of $1,300.
keilhauer.com



Conventional

The Aeron
Herman Miller
America's best-selling office chair starts at around $700.
hermanmiller.com

THE BRIDGEMAN ART LIBRARY/GETTY IMAGES



port. But lumbar support doesn't actually help your spine. "You cannot design your way around this problem," says Cranz. "But the idea of lumbar support has become so embedded in people's conception of comfort, not their actual experience on chairs. We are, in a sense, locked into it."

In the past three decades the U.S. swivel chair has tripled into a more than $3 billion market served by more than 100 companies. Unsurprisingly, America's best-selling chair has made a fetish of lumbar support. The basic Aeron, by Herman Miller, costs around $700, and many office workers swear by them. There are also researchers who doubt them. "The Aeron is far too low," says Dr. A.C. Mandal, a Danish doctor who was among the first to raise flags about sitting 50 years ago. "I visited Herman Miller a few years ago, and they did understand. It should have much more height adjustment, and you should be able to move more. But as long as they sell enormous numbers, they don't want to change it." Don Chadwick, the co-designer of the Aeron, says he wasn't hired to design the ideal product for an eight-hour-workday; he was hired to update Herman Miller's previous best-seller. "We were given a brief and basically told to design the next-generation office chair," he says.

When you sit down, the natural S-shape of your backbone turns into a C-shape

The best sitting alternative is perching—a half-standing position at barstool height that keeps weight on the legs and leaves the S-curve intact. Chair alternatives include the Swopper, a hybrid stool seat and the funky, high HAG Capisco chair. Standing desks and chaise longues are good options. Ball chairs, which bounce your spine into a C-shape, are not. The biggest obstacle to healthy sitting may be ourselves. Says Jackie Maze, the vice-president for marketing at Keilhauer: "Most customers still want chairs that look like chairs."

Recently Levine talked to Best Buy, Wal-Mart, and Salo accounting about letting him design their offices and keep people walking and working as much as possible. Levine jerry-rigged an old 1- to 2-mph treadmill to stand under a desk and put a handful of them in conference rooms. Those who wanted could have walking desks in their offices, and he partnered with Steelcase to manufacture a $4,500 version of the machine. "Within two weeks, people basically get addicted to walking and working," says Levine. "You just need to give them the chance." B

"We are not very social," says Robert Paulig, a seventh generation Helsinki roaster. "Coffee helps us get through the dark periods"

The World's Most Caffeinated Country



ILLUSTRATION BY TIM GOUGH

Finland's coffee consumption is eerily high. What's with the Nordic buzz?

When Starbucks CEO Howard Schultz announced last month that he expects China to become the company's largest market beyond North America, with, eventually, "thousands of stores," it made sense: emerging middle class, most populous nation on earth, fastest-growing big economy, and so forth. The forecast also draws attention to the surprising geography of coffee.

Although the U.S., with its 11,000-plus Starbucks stores, consumes more of the stuff than any other country, America can't crack the top 10 on a per-capita basis. In Latte America, coffee is often merely a platform for milk and sugar. "We're guzzling big cups," says Judith Ganes-Chase, a commodities analyst in Katonah, N.Y., "but what's in the cup?"

Because of harsh winters and long nights, among other factors, Scandinavia leads the world in per-capita cups; the greatest addicts, by a large margin, are the Finns. Traditionally, cold countries have been the thirstiest importers, while the tropical exporters haven't been nearly as enamored of their own product. That's changing. Brazil, the largest coffee producer, is on track to surpass the U.S. as the world's greatest aggregate coffee consumer in the next few years. Helping the cause, the Brazilian government has started to include *café com leite*—coffee with milk—in school meals for kids aged 5 and up.

These days, the rise of a national coffee culture tends to reflect economic growth. According to the research firm Euromonitor International, Turkey, Belarus, and Ukraine—all traditionally tea-drinking—have been the fastest-growing coffee markets over the last five years, driven chiefly by instant coffee. From Russia to India, as in China and Brazil, emergent middle classes with more disposable income tend to adopt Western habits, with coffee being a conspicuous element. "It's a very affordable statement of who someone is as a professional," says Tracy Ging, of the Specialty Coffee Association of America. Ging says that in the last five years, the number of espresso machines her association's members report shipping to the BRIC countries has been on the rise. China actually drinks less coffee, per capita, than any other of the 80 largest economies tracked by Euromonitor. But if strivers from Beijing to Qinghai become even desultory coffee drinkers, multiply a few cups by 1.34 billion, and you've got a Venti torrent of new business. —*Benjamin Wallace*

THE TOP 50 COFFEE COUNTRIES

Country	*Liters per capita*
01. Finland	608.2
02. Norway	322.6
03. Denmark	180.6
04. Germany	145.9
05. Slovakia	144.6
06. Czech Republic	142.8
07. Sweden	139
08. United Kingdom	134.7
09. Canada	125.6
10. Greece	116.2
11. Slovenia	110.9
12. Poland	107.3
13. Australia	107.2
14. Belgium	106.4
15. Costa Rica	105.9
16. U.S.	105.9
17. Switzerland	105
18. France	91.5
19. Georgia	90.2
20. Netherlands	89.1
21. New Zealand	88.3
22. Romania	85.9
23. Spain	85.4
24. Austria	78.7
25. Singapore	76.1
26. Algeria	68.9
27. Lithuania	64.7
28. Bosnia and Herzegovina	60.7
29. Russia	60.3
30. Macedonia	58.2
31. Estonia	58
32. Guatemala	55
33. Israel	54.6
34. Uruguay	53.2
35. Dominican Republic	52.2
36. Ireland	52
37. Brazil	50.1
38. Belarus	47.6
39. Philippines	47.2
40. Japan	43.6
41. Venezuela	36.6
42. Ukraine	32.8
43. Turkey	32.6
44. Italy	31.8
45. Chile	30.9
46. Colombia	30.7
47. Saudi Arabia	30.4
48. Latvia	30.3
49. Tunisia	29.7
50. Hungary	27.3

DATA: EUROMONITOR

Etc. Discerning Tastes



From seaweed to Pringles, a tour of celebrity chef **David Chang's** taste buds

What do you eat on a typical day? If I have breakfast, it's a bagel or a small Activia yogurt drink. But I usually just have two meals a day: lunch and the staff meal.
Favorite between-meal snack: Wild Bill's beef jerky.
Favorite candy bar: A friend introduced me to Maltesers from the U.K. But for U.S. candy, Take 5 bars, which are amazing.
Fast food of choice: It's such a cliché, but In-N-Out Burger. My standard order is double-double animal style–which means the patties are fried in mustard sauce–with well-done French fries and a side of hot peppers.
Cocktail: A gin and tonic, with Tanqueray or Bombay.
Mashed potato, baked, or fries? Pomme soufflé.
Tip: 20% after tax.
Meal to cook at home: Lasagna with homemade pasta, sofrito tomatoes, and bechamel.
Ideal number of guests for a dinner party: Eight. It's intimate but large enough for people to have their own private conversations.
Most trusted cookbook? *On Food and Cooking: The Science and Lore of the Kitchen* by Harold McGee.
Best gift for a host: Pappy Van Winkle's Family Reserve 20-year bourbon.
Underrated ingredient: Seaweed. There is so much you can make from it. And American smoked country hams from small producers, not that Smithfield Foods crap.
Versatile condiment: Sriracha hot sauce. I honestly put it on everything.
Favorite restaurant: Right now I'd have to say Dainty Sichuan in Melbourne, Australia.
Picnic staples: Ham, baguette, and cheese.
Dislikes: I don't like fiddlehead ferns or okra or tempeh.
Best airplane food: Emirates, no question. Basically, they still run things the way a first-class airline would have in the 1960s. When you want a drink, they squeeze fresh orange juice for you. For an appetizer you might get a big spoonful of caviar–it's just so decadent.
Mini-bar temptation: It always seems to be Pringles. I don't eat them usually, but when I'm in my hotel room, they get me every time. Ⓑ —*Interview by Sara Karnasiewicz*



Since launching Momofuku Noodle Bar six years ago, the Michelin-starred Chang has become New York's culinary wunderkind, with a best-selling cookbook and a growing restaurant empire

PHOTOS: STOCKFOOD (BAGEL, GIN); GETTY IMAGES (BEEF JERKY, HAM); CORBIS (SEAWEED); WIREIMAGE/GETTY IMAGES (CHANG)



Bail On Junk Bonds, Buy Up Cleantech

That's the counsel of money manager Steve Leuthold, who is moving to high-dividend stocks

It's hard to keep Americans from spending. The U.S. economy is improving at a faster rate than most people imagined it would, and the possibility of a double-dip recession is almost nil. The retail and consumer sector isn't great, but even it is coming in with a 3% growth rate year over year. Since interest rates will go up as the economy improves, I'm very lightly invested in bonds, and our biggest equity positions are in consumer electronics companies—retailer Best Buy and manufacturers Sony and Panasonic. The consumer-electronics retail sector looks reasonably priced, with 15% earnings growth estimated for 2010, and the stock prices of electronics manufacturers have really strong momentum.

Since we think interest rates are headed up, there's probably as much risk in bonds as there is in stocks now. Junk bonds have been a major part of the portfolio over the last year and a half, and the returns have been terrific. But we've reduced our stake in them from 14% of the portfolio to 3% recently. High-yield bonds have rallied 40% or 50% in the past year and their yield spreads [how much more the bonds yield compared with higher-quality corporate bonds] are no longer so attractive. We've replaced some bonds with high-dividend yield stocks. The Verizons, the Altrias, the Eli Lillys of the world now have 6% to 7% dividend yields.

We've also started to short Treasury bonds. Investors who want to do this on their own could consider a mutual fund [such as Rydex Inverse Government Long Bond Strategy], which will do the hedging for you. Stay away from the leveraged inverse index funds and exchange-traded funds that give you two or three times the inverse move of Treasury bonds. Those kinds of leveraged funds are too volatile.

In the stock market, we also like some Canadian and Asian banks we consider relatively safe: ones that didn't get sucked into all the problems U.S. banks got sucked into. That includes companies like Bank of Montreal and Royal Bank of Canada. Those kinds of banks make up most of our position, but we also have some banks that got into trouble and are undervalued, such as Citigroup and Barclays. Banking has fallen recently, however, in our rankings of industries.

One of the sectors we're big fans of for the long term is clean technology—wind, solar power, efficient batteries. We can't live on oil forever. We recommend clients have 5% to 10% of their portfolios in cleantech, but we tell them to buy it and put it away for 10 years because these changes won't happen overnight. It's important to stay diversified in this sector since it's so volatile. We recently launched the Leuthold Global Clean Tech Retail fund for that reason. Some of its biggest holdings are environmental technology company ADA-ES, SMA Solar Technology, Vestas Wind Systems, and sustainable development engineering company Abengoa. I'm the largest shareholder in the fund. ●

—As told to Lewis Braham

THE INCREDIBLE SHRINKING JUNK-BOND YIELD — **Merrill Lynch U.S. High Yield Index**



DATA: BLOOMBERG

We can't live on oil forever. We recommend clients have 5% to 10% of portfolios in cleantech

The Stats: Steve Leuthold is founder and chief investment officer of Leuthold Group, which manages $4.5 billion. The flagship Leuthold Core Investment Fund, closed to new investors, can hold almost any kind of stock or bond and can hedge. Its annualized 10-year return of 9.1% tops 98% of peers as of Apr. 23, according to Morningstar.

PHOTOGRAPH BY NICHOLAS EVELEIGH/GETTY IMAGES

If 145 Sun Life 145 Financial 145 told 145 you

how 145 many 145 years 145 we've 145

been 145 around 145 without 145 asking 145

for 145 government 145 bailout 145 money,

would 145 you 145 remember 145 our 145 name?

Not 145 that 145 we'd 145 ever 145 do 145 that.

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slpc 21051 (10/09) (exp 4/11)

Sensuous Sound Machine

In 2004, Steve Jobs threatened to sue Sonos. The two have since reconciled, and Sonos now makes a controller app for the iPhone



The Speaker of the House
Change the music in each room from your iPod, no matter where you are

No Piggybacking
The Zone Player S5 creates its own wireless network for your music

Sonos builds the bridge between your iPod and living room. *By Arik Hesseldahl*

The shift to digital has meant that music collections these days are more likely to be stored on hard drives than on a CD shelf. Consequently, our playlists are rarely connected to a high-quality set of speakers that can blast our songs all over the house. Even though most people make do with inexpensive and low-quality iPod docks, that's not good enough for aficionados who care about superior sound.

There are a number of products on the market that aim to bridge this digital audio gap. None does it nearly as well as the Sonos ZonePlayer S5. Since its launch late last year, this fantastic, self-contained, and low-maintenance player-speaker has set the standard. Whether you're listening to your iTunes collection or streaming music from services like Pandora, Rhapsody, or Sirius XM Radio, the S5—which starts at $399—works with nearly every file format and delivers impressive and expansive sound.

While most wireless music systems piggyback atop—and slow down—your existing Wi-Fi network, the Sonos system creates its own wireless network used exclusively for your music. It's also something that practically anyone can set up in five minutes. I plugged the S5 into my Internet router, installed some software on my MacBook Pro, tweaked one setting, and suddenly Van Morrison was singing in my living room. Minutes later, I configured it to play my personal radio stations from Pandora for some classical, to log into my Sirius Satellite Radio account for some blues, and, finally, to play the live stream of Canadian radio station Jazz.FM91.

You can install as many as 16 S5 players in a single home, but for those in more modest circumstances it's easy to transport the 9-pound player from room to room. There are three ways to control the Sonos System: from an application on your computer, from a $349 handheld controller, or, most conveniently, from a free app on your iPhone or iPod touch, where album art is displayed on the screen. It's easy to adjust volume and what's playing in every room.

Since they're connected to the Internet, the players occasionally get new features courtesy of automated software updates. Expect one later this month that will add access to iheartradio.com and allow two S5 players to act like a single stereo system, one of them playing the right channel, the other the left.

Don't worry about consulting a manual. You'll never find yourself fiddling with obscure settings on your router. You may, however, find yourself listening to a lot more music. **B**

THE ALTERNATIVES...



Bose SoundDock 10
Great sound and design, with remote access, but your music is limited to one room. *Price: $599.95*



Tivoli Network Radio
Great sound. Tricky to set up and Web radio is hard to navigate. *Price: $599*



Logitech Squeezebox Duet
Similar in approach to Sonos S5 except it uses your existing Wi-Fi network. *Price: $399.99*



D-Link DSM 330
Streams music and video from PC to home entertainment systems in a single location. *Price: $249.99*



Apple AirPort Express
A middleman: extends your iTunes playlists to any stereo wirelessly. *Price: $99*

PHOTOGRAPH BY TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK

Etc. One True Thing

The Umbrella

An elegant model that stands up to the elements–rain or shine

The Want: A high-quality, handsome portable umbrella that fits in a briefcase, can stand up to wind, and has a decent circumference. Bonus points for swanky fabric and a fashionable knob. In short: Looking for a long-term relationship, willing to pay for it.

The Get: Oertel makes a pocket umbrella ($120 at european-umbrellas.com) with polished ribs, brass rivets, and nickel-plated tempered steel that enables it to keep its shape no matter the gale force. The canopy has an unusual deep curve to keep your head and shoulders dry. The woven glen check is attractive, and the handle is Canadian maple. B
—*Stephen Treffinger*

i

THE ROYAL TREATMENT



For a bespoke umbrella, consider Swaine Adeney Brigg, Prince Charles' maker of choice.
Costliest umbrella: $1,500-plus.
Wind-defying feature: Yorkshire steel.
Time it takes for a custom order: Up to 12 weeks.
Antitheft device: Screw-off handle.
***Singin' in the Rain* or Rihanna?** "Rihanna's all right, but our clients aren't as up on their R&B," says employee Timothy Lord.



PHOTOGRAPH BY JAMIE CHUNG FOR BLOOMBERG BUSINESSWEEK; (PRINCE CHARLES) DAVID PARKER/GETTY IMAGES

Go Northwest, Young Man

In 2002, Heather Mahar, now Paulson's wife, was a contestant on *The Amazing Race*; she and a law school friend came in ninth

When he discovered hidden assets in an underserved market, Merritt Paulson gave Dad a call



Being the son of a multimillionaire who happens to be a former U.S. Treasury Secretary and Goldman Sachs CEO ought to be easy. When your father's net worth is estimated at more than $700 million, procuring a $16 million loan to finance the purchase of two Portland minor-league sports franchises, the Beavers baseball team and the Timbers soccer club, isn't terribly hard. However, it's a problem if Dad leads a taxpayer bailout of Wall Street just as you're trying to get taxpayer help for a new stadium.

In 2007, Merritt Paulson, now 38, bought the teams and moved to Portland. Before that, the Harvard Business School graduate and son of Hank Paulson worked in New York for a decade: first at HBO, then at the National Basketball Assn., where he helped get its cable channel off the ground and learned about the economics of sports franchises. When the Beavers were put on the block, he primed his parents for a loan. "I'd already spent a lot of time convincing my family that Portland is a big market that doesn't have a lot of activity," says Paulson.

The Timbers are set to join Major League Soccer next year, establishing a natural rivalry with the Seattle Sounders. "This is an unusually good soccer market," says Paulson. "Seattle's team has more season ticket holders than the Mariners—it's arguably a case study of the most successful expansion-team launch in a major league sport." To gain admission into the MLS, Paulson had to get PGE Park, the city-owned stadium where his teams play, renovated to become a full-time soccer complex. His company will pay $8 million in cash and prepay $11.1 million in license and user fees to the city. Portland will kick in $11.9 million. He remains uncertain where the Beavers will play baseball next season.

The transition hasn't been without its glitches. When stadium negotiations got tense, Paulson made a rookie move and fired off an angry e-mail to a reporter—which found its way into print. "How public this job has been is one of the steep learning curves," he says. "I'd never complain about having the last name Paulson. It's just added a unique political dynamic to an already hard job." B
—*Ryan Bradley*

In 2009 the Timbers drew 200,105 to PGE Park. The Beavers attracted 369,580



THE ECONOMICS OF OWNING A TEAM

Amount Paulson paid to Major League Soccer (MLS) for the Timbers expansion franchise: $35 million

Cost to renovate PGE Park (home of Portland Beavers and Timbers) into an MLS-ready facility: $31 million

Amount to be paid by City of Portland and its taxpayers toward renovation: $11.9 million

Alternate team names suggested for the Portland Beavers after Paulson's purchase: Wet Sox, Green Sox, Thorns, and Sockeyes

Number of New York-Portland red-eye flights Paulson made in early 2007 as he finalized the two-team purchase: 6

Number of stories published in *The Oregonian* about Paulson since Sept. 3, 2008: 160

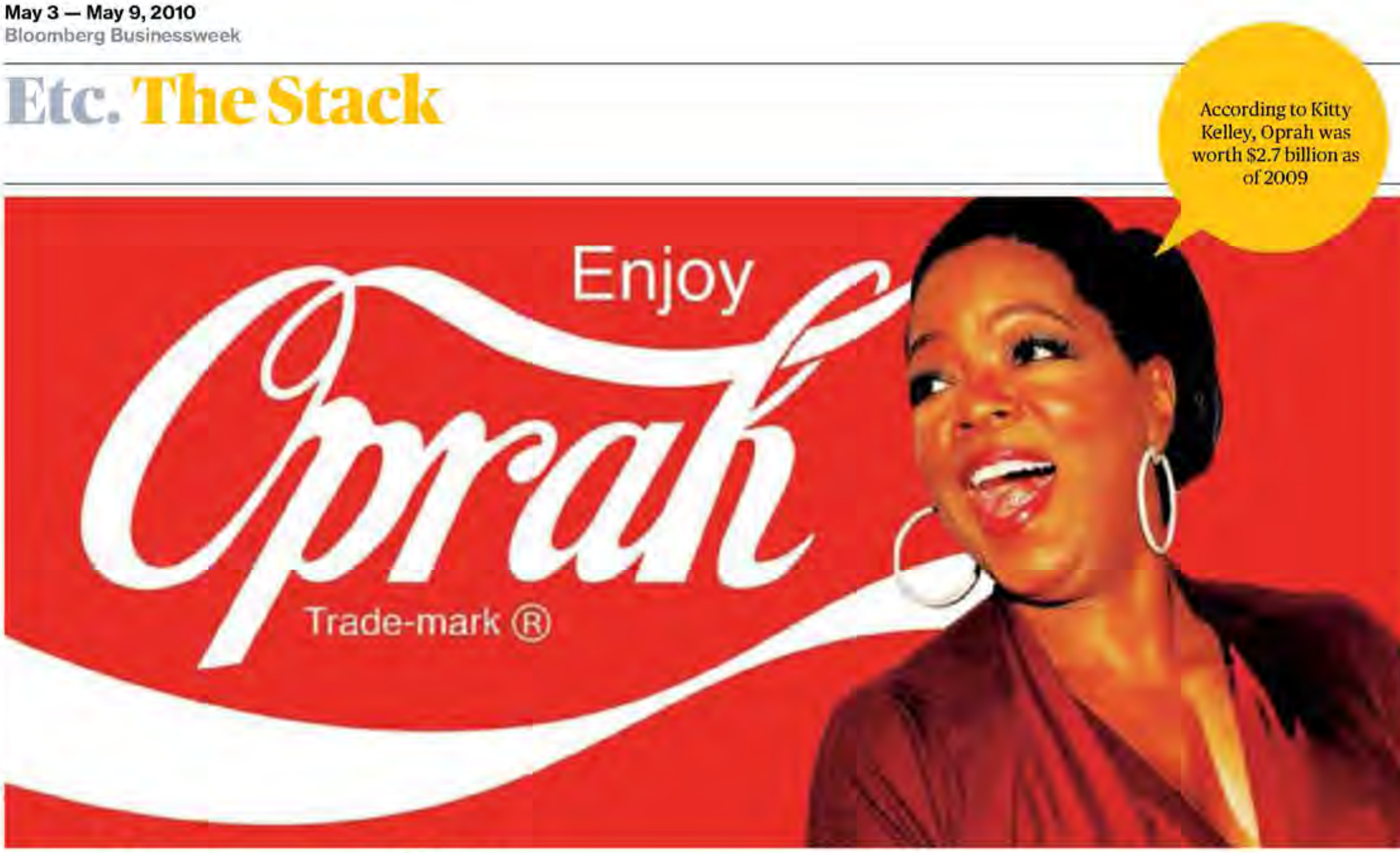
Number of public speaking engagements Paulson made during his first year of ownership: 40

Employees at PGE Park: Roughly 35 full-time; 200 part-time staff on game days

DATA: SHORTSTOP LLC; *BLOOMBERG BUSINESSWEEK*

(PAULSON) PHOTOGRAPH BY CHRIS MUELLER FOR BLOOMBERG BUSINESSWEEK


AWARD-WINNING SHARP MFPs
HAVE ALL YOUR BASES COVERED.
Joe Girardi
New York Yankees Manager
2009
BLI
BUYERS LAB
LINE OF THE YEAR
Sharp
Electronics
MFPs
Getting your office team to perform at a championship level requires consistent high performance. You should expect the same high-level performance of your office MFP. For the second time in three years, Sharp has won the prestigious Buyers Laboratory Award for MFP Line of the Year. Among the many stats BLI tests for are reliability, image quality, productivity, ease of use, and overall value. Sharp has also won over a dozen BLI awards of achievement across the entire spectrum of color and monochrome MFPs. Learn more about how Sharp MFPs can be your office MVP, and give your team a competitive edge.
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A Story of O, Starved for Scandal

Why is Oprah Winfrey so successful? Kitty Kelley has no idea.

By June Thomas

Oprah: A Biography
By Kitty Kelley
CROWN PUBLISHERS; 524 pp.; $30



If ever there were a tell-all-proof celebrity, it's Oprah Winfrey. Every day she treats her TV show like a confessional; every week she shares personal information on her satellite radio channel; and every month she sprinkles I's around the pages of *O*, her glossy magazine. There's no need to dig for dirt on Oprah: Since she landed her first talk show in 1978, she has built an empire excavating her own history and serving it up in neat little piles.

Oprah has already told the stories of her childhood molestation and teenage pregnancy, her dalliances with drugs and married men. Consequently, there are precious few secrets for Kitty Kelley, in *Oprah*, her latest unauthorized biography, to expose. Well, she claims to have learned the identity of Oprah's biological father, but she refuses to reveal his name until Oprah's mother shares the information with her daughter. This leaves Kelley with the decidedly less shocking revelations that Oprah once dated TV personality and lite music composer John Tesh and that, as an 18-year-old, she refused to relinquish a pageant title after the judges mistabulated their votes and incorrectly crowned her queen.

Here's an indication of the paucity of material: Kelley devotes two pages to chronicling Oprah's odd habit of inserting bathroom references into high-profile speeches: At commencement addresses from Wesleyan to Stanford and on the stage of the Kennedy Center, Oprah has complained that her popularity means she has no privacy on the potty. (Of course, it doesn't take years of research to notice this compulsion. In the May 2010 issue of *O*, when asked, "What's the one thing you can't do because you're famous," Oprah answers, "Have a pootie in a public restroom.")

Kelley estimates that Oprah was worth $2.7 billion as of 2009. She came into her wealth through a series of smart decisions rather than by marriage or inheritance–you can make the case that she's America's most successful businesswoman–yet there are far more entries in the index under "Winfrey, Oprah: and weight" than under "Winfrey, Oprah: success of." Oprah's privately owned company, Harpo, is a multimedia powerhouse that includes production companies, studios, and magazine and merchandising subsidiaries, yet Kelley seems taken aback that Harpo would require its employees to sign a strict confidentiality agreement, that Oprah would take pains to manage her image,

PHOTOGRAPH BY C.J. LAFRANCE/GETTY IMAGES; TYPOGRAPHY BY JUSTIN THOMAS KAY

or that "Ratings are everything to Oprah."

Kelley is more like one of Oprah's pet spaniels than a bloodhound when it comes to sniffing out the story of Jeffrey D. Jacobs, the "lawyer, agent, manager, financial advisor, promoter, protector, and confidant" who helped Oprah take control of her own show and operate her own studio. He negotiated the contracts that allow Oprah, Kelley writes, to earn $100 million per year from her talk show while Ellen DeGeneres settles for a mere $25 million. Jacobs is described as the Moses who led Oprah to the Promised Land. "Jeff released me from the slave mentality," Oprah has testified. "He helped me see that I really could have control." After setting him up as the most gifted of Oprah's gurus, Kelley merely mentions that "Winfrey jettisoned Jacobs" in 2002, after "their friendship fractured over professional jealousies." That is all readers learn about the split. Elsewhere, Kelley notes that Oprah's birthplace, Kosciusko, Miss., also produced BET founder Robert L. Johnson, the first African-American billionaire, but she offers no theories for how a poor, segregated Southern city came to produce two media moguls. There is "no logical explanation for the extraordinary coincidence," she says. A probing interrogator like Oprah would never leave it at that. (Even worse, most sources list Hickory, Miss., as Johnson's home town.)

Oprah may frame her accomplishments in the New Age language of positive thinking and self-empowerment—she lives by a credo she heard from Jesse Jackson in 1969, "If you can conceive it and believe it, you can achieve it"—but surely there are more prosaic reasons for her success. It's clear she has the common touch, and in her mid-50s, she works with the tirelessness of a striving rookie. She sleeps just four or five hours a night, and she is famously generous: A former co-worker from one of her earliest career stops, in Baltimore, recalls that the film editors "always busted their backs to help Oprah because she was so nice to them."

In 1994, Oprah was burned by the failure of Families for a Better Life, her highly publicized but ultimately ineffective effort to help poor Chicagoans get off welfare. The project cost $843,000 and produced few concrete results. Three years later, she established the Oprah Winfrey Foundation and Oprah's Angel Network, which collects donations from viewers. Since 2002 she has directed most of her giving to South Africa, including more than $40 million to set up the Oprah Winfrey Leadership Academy for Girls. Nine months after the school opened, a sex scandal brought unwanted attention, and Oprah conceded that she had spent too much time personally selecting light fixtures and pillow cases and too little vetting the staff. "Her philanthropy was not quiet or anonymous," Kelley complains, though it seems churlish to criticize a woman who has given away well over $100 million for her choice of recipients and pride in her generosity.

In the foreword, Kelley explains how she researched her book: First she compiled 25 years of press clippings about her subject, then she conducted interviews with the few remaining Americans who know anything about Oprah and haven't yet signed a nondisclosure agreement with Harpo. The result—a tome-length Wikipedia entry in the form of a hatchet—proves one essential point: Oprah owns her own story, and she'll be damned if she's going to let Kitty Kelley, or anyone, co-opt it. B

Kelley is stunned that Harpo requires tight lips from employees

Kitty Kelley Inc.



With nearly 600,000 copies of *Oprah* currently in print, Kitty Kelley has again proven the blockbuster potential of the salacious celebrity tell-all. A numeric capsule of the author's contentious career.

Jackie Oh! (1978)



1981
Kelley appeared on a Winfrey-co-hosted Baltimore show to promote her first celebrity best seller. Kelley writes that Oprah told her, "I don't approve of that kind of book."

Elizabeth Taylor: The Last Star (1981)



$150,000
Advance from Simon & Schuster to write about Taylor after Kelley's previous publisher, Lyle Stuart, turned the book down.

His Way: The Unauthorized Biography of Frank Sinatra (1986)



$2 million
Amount of the suit initiated by Sinatra before publication. The suit was later dropped. To the Chairman's chagrin, *His Way* became a huge best seller.

The Royals (1997)



$25,000
The amount that *People* magazine reportedly paid Kelley to run an excerpt of her book in its pages. The magazine killed the piece after Princess Diana's death.

The Family: The Real Story of the Bush Dynasty (2004)



$5 million
The figure sought in a judgment by a journalist contending Kelley plagiarized his previously published article in her book. The suit was dropped.

Nancy Reagan: The Unauthorized Biography (1991)



$3.5 million
The fee Simon & Schuster paid Kelley to write *Nancy Reagan*, a damning account that portrayed the former First Lady as modern Marie Antoinette.

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Etc. Hard Choices

J. Patrick Doyle

"My initial reaction to the campaign was: 'Wow, that's incredibly blunt.' The more I digested the idea, the more comfortable I got"

As he prepares to announce first-quarter earnings on May 4, the Domino's CEO discusses changing the game by changing the recipe



I liked our old pizza, but there were a whole lot of people out there who didn't. Any time you suggested ordering from Domino's, there would always be one or two people who would say: "Really? I don't like that pizza."

We thought that was O.K. because we're really fast, and we give good service. The one complaint we always heard was that the crust tastes like cardboard. That one bothered us the most. I think it was a function of our delivery heritage: It was getting delivered in cardboard boxes.

It wasn't a hard choice to change the pizza. But it was absolutely a calculated risk to advertise it this way. There was no Plan B. If it didn't work, there was no going back. You can't say your old pizza was bad and this new pizza is great and expect to go back to the old formula if people don't like it. My initial reaction to the campaign was: "Wow, that's incredibly blunt." The more I digested the idea, the more comfortable I got. This new pizza was dramatically different. It tasted better–there was no question. We knew all we had to do was get people to try it.

When they launched New Coke, they didn't go out and say old Coke was horrible, they didn't get rid of old Coke. They sold them both. We couldn't do that. It took about 18 months to get to this formula. We were doing it through the absolute teeth of the recession, and we knew it would result in a higher-cost pizza.

All of the late-night shows tried to say [our pizza was bad] in a slightly more outrageous way to see if it would offend us. We would direct them to our ads and point out that we were saying the same thing. Personally, when Conan O'Brien did a piece about me, it was a bit surreal. He talked about the leprechaun CEO at Domino's and said the problem was that there was an Irish guy making pizza. Stephen Colbert made us his Alpha Dog of the Week. He completely retold our story in a funnier way. Everyone watching knew that our pizza had changed. To me, that was beautiful. B

—*As told to Diane Brady*

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